Austria	Sch22	Indonesia	Rp3100	Philippines	Pesos40
Bahrain	Din0.650	Iran	Rls160	Portugal	Esc120
Belgium	BFr48	Israel	NS3.50	S.Arabia	Rls7.00
Canada	C$1.00	Italy	L1700	Singapore	S$4.10
Cyprus	C£0.90	Japan	Y600	Spain	Pta145
Denmark	DKr10.00	Jordan	Fils500	Sri Lanka	Rup30
Egypt	E£2.25	Kuwait	Fils500	Sweden	SKr9.00
Finland	Fmk7.00	Lebanon	£1250.00	Switz	SFr2.30
France	FFr7.00	Lux	LFr48	Taiwan	NT$65
Germany	DM2.30	Malaysia	Rm4.25	Thailand	Bht50
Greece	Dr120	Mexico	Pes300	Tunisia	Din0.800
Hong Kong	HK$12	Morocco	Dh6.00	Turkey	L600
Iceland	Ikr125	Neth	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr10.00	USA	$1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,705 Monday November 28 1988 D 8523 A

COCAINE TRADE
Odds in favour of the drug barons
Page 10

World News

Israelis shoot 24 in Gaza Strip and W Bank

Israeli troops shot and wounded at least 24 Palestinians in the occupied Gaza Strip and West Bank during widespread unrest over the US decision not to allow PLO leader Yasser Arafat to travel to the United Nations General Assembly.

SA frees nationalists
South Africa's announcement that it is granting an early release to two ailing black nationalist leaders fuelled speculation of an early and unconditional release for Mr Nelson Mandela and other leaders of the banned African National Congress. Page 26

Soviet-Afghan talks
Soviet Union held direct talks with Afghan rebels in Islamabad, Pakistan, for the first time since the start of the 10-year-old guerrilla war. Page 4

Croat shot in Sydney
A shot fired from the Yugoslav consulate in Sydney wounded a 13-year-old Croat youth as he climbed the compound walls during an anti-Yugoslav demonstration. Yugoslavia protested about the incident, which involved 1,500 demonstrators calling for Croatian independence, to the Australian government.

Anglo-Irish tension
Concern was growing in Dublin over possible repercussions for Anglo-Irish relations following the British request for the extradition of Father Patrick Ryan, the Irish Roman Catholic priest who is wanted in connection with a series of IRA murders and bombings. Page 11

21 drown in Nile
Twenty-one people were drowned when a sailboat capsized on the river Nile on the outskirts of Khartoum.

Manila Marcos alert
Philippine troops went on full alert around Manila when busloads of supporters of ex-president Ferdinand Marcos drove into the capital calling for an army takeover.

Pope on Palestine
Pope John Paul called for a Palestinian homeland and suggested Israel should see the Palestine National Council's implicit recognition of the Jewish state as a positive step.

PoW swap halted
Iran said it was suspending its repatriation of sick Iraqi prisoners of war "until the release of Iranian POWs who were not returned home in the initial stages of the exchange operations." Page 2

Zaire cabinet shuffle
President Mobutu Sese Seko, under pressure to reform Zaire's economy appointed a new prime minister. Page 4

Laos drought fears
Laos faces a serious shortage of rice after a severe drought this year and some villages may only have enough stocks to last two or three months.

PM to be named
Acting Pakistan President Ghulam Ishaq Khan will name a prime minister on Thursday, state-run television said. It quoted a government spokesman as saying the new Premier would take office on Friday. Page 4

12 die in SA crash
Twelve black people were killed and seven seriously injured when a bus and a minibus collided near the South African city of Durban.

US Mormons killed
Two US Mormon missionaries were killed when their car was hit by a train on a railway crossing near Coimbra, central Portugal.

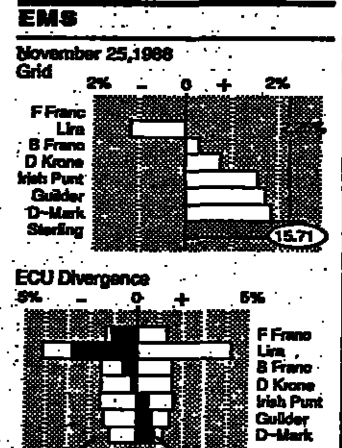
Into the melting pot
Nigeria's central bank plans to mint cheaper coins. Its old ones, worth more for scrap than small change, have largely disappeared into illegal melting pots so their nickel content can be smuggled abroad.

Business Summary

UK employers issue warning over strength of sterling

CONFEDERATION of British Industry, UK employers' organisation, warned that the strength of the pound may be damaging Britain's export prospects as Mr Nigel Lawson, the UK Chancellor of the Exchequer, prepared a determined defence of his economic strategy. Page 26

EUROPEAN Monetary System: Attention was focused away from the EMS last week. Poor French current account figures for August were regarded as historic, and had little impact. A weak dollar poses potential problems, as fleeing funds are likely to be attracted into the D-Mark rather than other EMS currencies, but the French Finance Minister said he rules out any devaluation of the franc.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

World Currencies Page 40

FRIED KRUPP, struggling West German steel and engineering group which said its 1988 pre-tax loss could approach DM100m ($58m), reacted sharply to reports that its ownership could change as a result of interest being shown by the Thyssen concern. Page 31

CREDIT AGRICOLE, France's largest bank, has named Mr Philippe Jaffré, former deputy head of the French Treasury, as its new chief executive. Page 31

NIPPON Shinpan, Japan's largest consumer credit group, saw pre-tax profits rise 15.5 per cent to a record Y12.6bn ($104m) in the six months to September, due to brisk credit card sales and securities-guaranteed loans. Page 31

ROLLS-ROYCE, the UK aerospace group, will benefit by up to £175m ($315m) as a result of a deal by Ansett World-Wide Aviation Services of Australia to order up to 16 Boeing 757 twin-engined short-to-medium range jet airliners, with Rolls-Royce RB-211-535E4 jet engines. Page 8

DUBLIN'S proposed international futures exchange, the European Mercantile Exchange, is on the way to reaching its minimum subscription level and will open next July. Page 30

NIXDORF Computer, former high flier on West Germany's corporate scene, has come down to earth this year, hit by a marked slowdown in new business, higher component costs and lower selling prices, and rapid changes in an increasingly crowded market. Page 31

CARNIVAL Cruise Lines, world's largest operator of cruise ships, will increase its fleet by as much as 50 per cent with $625m purchase of Holland Amerika's cruise business. Page 31

AUSTRALIAN National Industries, Australia's largest engineering group, which is bidding for Aurora, has hit back at the UK-based engineering company's defence document. Page 32

SHORT BROTHERS, the UK Government-owned aerospace manufacturer, has attracted more than twenty prospective buyers. Page 14

NEW ZEALAND parent company of Sir Ron Brierley's international investment group, Brierley Investments, shed another loss-making holding, selling its stake in Barclays Bank NZ to Barclays International. Page 31

Gorbachev denounces excessive demands

By Quentin Peel in Moscow

MR MIKHAIL Gorbachev, the Soviet leader, facing one of the most critical weeks since he came to power three years ago, issued a stern warning on Soviet television last night against excessive nationalist demands and any attempts to stir up racial tension in the Soviet Union.

He was speaking just days before a crucial session of the Supreme Soviet which has been summoned to approve a series of controversial constitutional amendments.

It also comes as serious race riots have claimed at least 10 lives in the southern republics of Armenia and Azerbaijan.

Mr Gorbachev was addressing a meeting of the Presidium of the Supreme Soviet, the country's highest constitutional authority, as the transcaucasian conflict brought into the open strong criticism by military leaders of the civil authorities' failure to help control the situation.

In an interview over the weekend, Col-General Yuri Shatalin, one of the top military commanders in charge of the troops under the Interior Ministry denounced criticism of his soldiers for allegedly "stifling democracy".

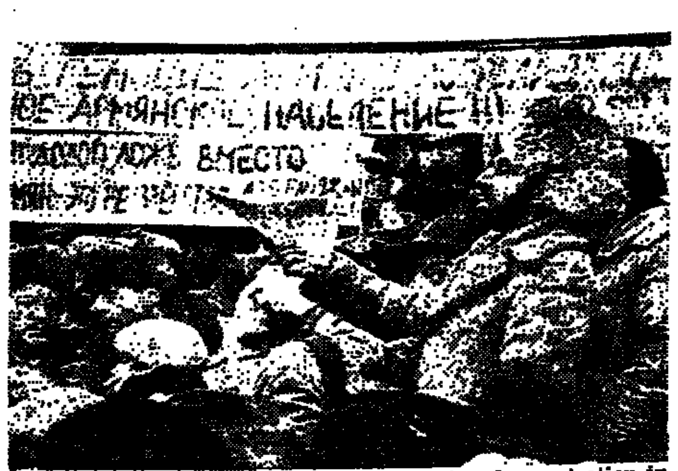
He roundly attacked both Communist Party and police officials for failing to give assistance, and criticised the national media for failing to report the disturbances.

The disturbances in the trans-caucasus, over control of thedisputed enclave of Nagorno-Karabakh, have flared just as nationalist aspirations are already causing severe problems for the Soviet leader.

Five Soviet republics have lined up to demand changes in the constitutional draft, which is supposed to introduce a new super-parliament and give wide powers to a new executive president; who, it is confidently expected, will be Mr Gorbachev.

In Mr Gorbachev's speech, broadcast in full on Soviet television, he denounced the tiny Baltic republic of Estonia – which has led the revolt – for passing its own constitutional reform to give itself a right of veto on enacting future national Soviet legislation.

Continued on Page 26
Riots death toll rises, Page 2;
Editorial comment, Page 24



An unidentified man speaks at an Armenian demonstration in Moscow's Armenian cemetary yesterday beside banners reading: Stop the genocide of Armenians in Azerbaijan.

Saudi bid to lower oil price pushes Opec talks near to collapse

By Steven Butler in London

SAUDI ARABIA yesterday pushed ministerial talks of the Organisation of Petroleum Exporting Countries (Opec) in Vienna to the brink of collapse when it made a surprise proposal that the cartel lower its target price from $18 to $15 a barrel or, alternatively, set a price band of between $15 and $18.

The new Saudi proposal, which was flatly rejected by Iran and opposed by a number of other Opec members, raised the possibility that the conference could end without an agreement.

This would be certain to send oil prices tumbling on world markets. Prices had risen sharply on Friday on expectations that a new agreement was all but signed.

The Saudi proposal came almost immediatley after the Iranian cabinet gave final approval to the outline of a new production accord under which Iraq would be readmitted to the Opec quota system on a level equal to Iran.

This had been widely assumed to be the most difficult hurdle toward approving a pact that would lower Opec production to a ceiling of 18.5m barrels a day, compared to current production of 22.5m b/d. Iran has for many years opposed granting quota parity to Iraq, but conceded this critical point early yesterday.

The outline proposal approved in Tehran, however, called for an $18 target price, and Mr Fereydoon Barkeshli, acting head of the Iranian delegation, said in Vienna that Iran would not renegotiate the package.

Mr Gholamreza Aghazadeh, the Iranian minister, had returned to Tehran to present a package agreement that was offered to him late Thursday night by a group of Opec negotiators.

The eleventh hour hitch has raised doubt that enough patience remains to push the conference toward a successful close.

Members of some delegations have already left for home. Nerves in the Austrian capital are also badly frayed after 10 days of intensive negotiations.

The Saudi initiative to lower the target price revives a fundamental split between Opec members which have large reservesof oil and those whose oil will run out more quickly.

The Saudi proposal was thought to be acceptable to its Gulf allies, Kuwait and the United Arab Emirates, which have an interest in preserving the long-term competitiveness of their low-cost reserves.

A higher oil price encourages more exploration and production by non-Opec countries, increases incentives for conservation, and improves the attractiveness of alternate fuels.

Mr Barkeshli yesterday said that in addition to Iran, Algeria, Libya, and Nigeria had opposed the Saudi initiative. Other non-Gulf Opec members, even those which accept that $15 is a more realistic oil price, privately expressed anger at this latest turn of events.

The Saudi delegation was understood to be acting on instructions from King Fahd, and there was speculation that the true Saudi motive may have been to reassert its leadership over Opec.

Iran was widely perceived to have got the better of the Gulf Arab states in last week's negotiations, especially as it would receive an 11 per cent rise in its quota, compared to an average 2.5 per cent increase for other members, excluding Iraq.

If the initiative did come from the Saudi royal family it would be difficult for Saudi Arabia to back down.

Oil analysts believe that because of the current glut of oil on the world market, the proposed agreement with its ceiling of 18.5m b/d is too high to push prices up to $18 in the six month period covered by the pact.

Thus the reference price is more important as a symbol of Opec's strategic direction rather than as an actual determinant of oil prices.

"What the Iranians want is to set a sort of symbolic reference price for the future," said Mr Mehdi Varzi, oil analyst at Kleinwort Grieveson.

Amstrad plans to manufacture more in Europe

By Terry Dodsworth in London

AMSTRAD, the UK electronics group which has achieved spectacular growth by importing low-cost products manufactured in the Far East, is planning to shift more of its production to Britain.

The company is negotiating a deal to make up to 20 per cent of its new business computer range at GPT, the telecommunications equipment group formed earlier this year by the General Electric Company and Plessey.

Mr Alan Sugar, Amstrad's chairman, said the group was going into more manufacturing in Europe when it could find subcontractors that were competitive with costs in the Far East. If a deal was concluded at GPT and proved to be successful, the company might "ramp up" its production there.

GPT, Britain's leading manufacturer of public and private telephone exchanges, is at present at the centre of a takeover battle for Plessey launched by GEC and Siemens of West Germany. The company would not comment on the talks with Mr Sugar, but it is known to be interested in an agreement with Amstrad.

Production targets for Amstrad's new personal computer range have not been revealed, although analysts believe that the company may be aiming to make about 100,000 units a year.

The machines, unveiled in London two months ago, are designedto spearhead the group's drive to develop its sales in the business desktop personal computer market, where it has been under pressure this year because a shortage of memory chips has forced it to cut back output.

Amstrad concluded another contract involving GEC last June, when it chose the group's Marconi Defence Division to supply the signal processors for its planned new satellite reception dishes. The dishes are to be launched next year to receive programmes trasmitted by Mr Rupert Murdoch's Sky television service, an ambitious attempt to develop a mass market for satellite TV in Britain.

Mr Sugar has promised that 60 per cent of the value of the £199 receivers will be British, and says that he has chosen some metal working companies in the Midlands to make the dishes.

A further move into the UK came earlier this year when the company transferred all of its video cassette recorder manufacturing to a plant at Shoeburyness in Essex jointly owned with Funai of Japan.

In the past, Amstrad has imported all of its VCRs from Funai's Far Eastern plants. It has gradually shifted more of this production into the UK, and claims to have completed the switch-over to coincide with anti-dumping levies brought in against the Japanese company by the European Commission during the summer.

Mass rallies voice solid support for devolution of power

By John Lloyd in Moscow

MASS MEETINGS in the republics of Estonia, Latvia and Lithuania over the weekend voiced solid and emotional support for a radical decentralisation of power from Moscow, and opposition to moves to trim the Soviet republics' existing autonomy.

At the rally in Tallinn, the Estonian capital, one speaker cried: "We are not asking, we are demanding our sovereignty. We are not beggars now."

Baltic delegates to tomorrow's meeting of the All-union Supreme Soviet in Moscow were told not to compromise on the issue of autonomy. The Supreme Soviet meeting will discuss amendments to the constitution which a number of republican Soviets – notably the Baltic states, Armenia and Georgia – believe will weaken their independence.

Among the Baltic republics, Estonia has acted as the advance guard of a movement for autonomy which presently operates at, or even beyond, the furthest limits of the perestroika drive begun by Mr Mikhail Gorbachev, the Soviet President. On November 16, the Estonian Supreme Soviet passed a resolution which gave it the right of a veto over Soviet legislation, the most decisive act of independence yet taken by any republic.

This was ruled invalid by the Supreme Soviet's presidium over the weekend, although Mr Gorbachev referred in a speech to changes to the constitutional amendments which would go some way towards republics' concerns.

At a meeting organised by the Estonian Popular Front in Tallinn on Saturday, a crowd of more than 7,000 stood in a freezing Baltic wind for nearly two hours to clap, sing and stamp their support for their government's stand.

A hundred Estonian flags surrounded the rally, and placards read: "We want to hold a sovereign Estonia in our own hands."

Mr Matti Hint, a Popular Front leader charged with drafting a new law proposing Estonian as the main state language, declared: "People used to say we would all be merged – we would become Homo Sovieticus. That will never happen."

Mrs Sima Vainola, a university lecturer and a Popular Front spokeswoman, said "let's keep our fingers crossed

Continued on Page 26

Arabs likely to seek non-US venue for Arafat's UN address

By Tony Walker in Cairo, Victor Mallet in Amman and Stewart Fleming in Washington

ARAB states, infuriated by a US decision to bar Mr Yassir Arafat, the PLO leader, from visiting New York to address the UN, are likely to call for a special session on the Palestine issue to be held elsewhere.

Egypt and Jordan, two of Washington's closest Arab friends, indicated yesterday that they would spearhead moves to ensure that the PLO chairman had an opportunity to address the annual General Assembly Palestine debate, possibly in Geneva.

On Saturday, the US State Department provoked widespread criticism in the Arab world by announcing its rejection of Mr Arafat's request for a visa to make his first visit to the UN General Assembly since 1974. The department said it had evidence that the PLO chairman had been an accessory to terrorism against Americans and others.

Mr Esmat Abdel-Meguid, the Egyptian Foreign Minister, postponed a planned visit to New York, accusing the US of violating its 1947 headquarters agreement with the UN and of contradicting its pledge to work for lasting peace in the Middle East.

King Hussein of Jordan, who conferred with Mr Arafat in Amman yesterday, expressed concern that the move could encourage a resurgence of extremism within the PLO after the organisation's adoption of a more moderate political programme at a meeting in Algiers earlier this month.

The US move came afterintense lobbying for such a decision by Israel and its American supporters, who have been caught off guard by the PLO's current diplomatic offensive. Mr Arafat had hoped to gather further support at the UN for his declaration of an independent Palestinian state, now recognised by more than 50 countries.

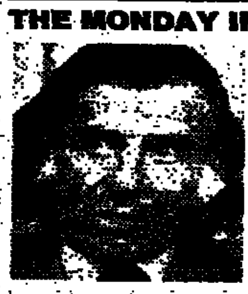
Apart from coming as a setback for the PLO, the State Department's decision may inject fresh tension into Washington's relationship with the UN. The PLO is expected to mobilise strong support in the General Assembly for a condemnation of the US. Saturday's move also alarmed some West European countries, which are trying to encourage the PLO's pragmatic line.

Under the 1947 headquarters agreement, the US is obliged not to hinder the passage of people with legitimate business at the UN, but the US has always reserved the right to bar entry on "security grounds".

The move to deny Mr Arafat a visa is being presented in Washington as a personal decision by Mr George Shultz, the outgoing Secretary of State. He is said to have overruled senior aides

CONTENTS

THE MONDAY INTERVIEW



The evident failure of the Radicals to solve Argentina's drastic economic problems gives Mr Carlos Saul Menem, the Peronist Presidential candidate, a head start in next May's elections
Page 44

OVERSEAS NEWS

Death toll in Azerbaijan riots rises to 10

By Quentin Peel in Moscow

GRAPHIC details of racial disturbances in the Soviet republic of Azerbaijan, mass demonstrations in defiance of a dusk-to-dawn curfew, and attacks on soldiers, police, and Communist Party offices have finally been published in the Soviet media, almost a week after they broke out.

The reports come as the death toll in the riots between Azeris and their Armenian neighbours, sparked by a battle for control of the disputed enclave of Nagorno-Karabakh, rose to 10, with at least 160 reported injured.

Virtual martial law, still described as a "special situation" by the Soviet authorities, has now been imposed in at least four cities of Azerbaijan, including the capital, Baku, and in Yerevan, the Armenian capital.

The Communist Party leaders in the two places where the worst rioting has taken place – the town of Kirovabad and the district of Nakhichevan – were sacked at the weekend, following unprecedented criticism by military officers, who also denounced the failure of the local police to maintain order.

A top military commander in Moscow also sharply attacked the national media for the failure to provide adequate information. Colonel-General Yuri Shatalin, the officer commanding the main department of Interior Ministry troops, said the lack of information created severe problems for efforts to control the situation.

"Our troops hunger for information, but they are information-starved," he told the Communist Party newspaper Pravda, one of the main offenders in failing to report the situation.

The most dramatic descriptions of the disturbances were published at the weekend by the Krasnaya Zvezda (Red Star) army newspaper, revealing how troops have come under furious attack by Azeri mobs for defending a bridge into the Armenian quarter of Kirovabad.

Four soldiers and two Azeri civilians are officially reported to have died in the disturbances there, two more civilian killings have been reported by the Azerbaijan official news agency, and Armenia is rife with rumours about heavy Armenian casualties. On two occasions, civilians are reported to have thrown grenades at the soldiers, killing a lieutenant and two privates, and on another occasion wounding several.

The first occasion was when a mob was sacking the Communist Party headquarters in Kirovabad, Red Star's military correspondent reported. The second was when soldiers blocking the bridge into the Armenian quarter came under attack.

The soldiers also came under attack with "bottles filled with acid and inflammatory mixtures", the correspondent said.

"A special situation has been declared in Kirovabad, but we are finding it hard to get co-operation from the local police and party," it reported. "We were told that party activists were patrolling shoulder-to-shoulder with the soldiers. But we did not see a single one of them. We didn't even see the police."

Meanwhile in both Baku and Yerevan, where all unauthorised demonstrations have been banned by the new military commanders, huge rallies are reported continuing.

Rome nears end of search for railways saviour

By John Wyles in Rome

ITALIAN Ministers hope to have completed by Wednesday their search for the managerial equivalent of a medieval knight with the talent and political courage to rescue the state railway system from its disastrous condition.

In its 80 years under public ownership, the Ferrovie dello Stato (FS) has almost certainly never been brought so low as at the weekend, following the resignation of its president and 12-member board.

Mr Lodovico Ligato, the FS president, and his board offered to resign last Thursday but left the decision to the Government. Then, on Friday, they chose to fall on their swords when magistrates arrested no fewer than four board members on charges of corruption.

It is alleged that they are involved – with four FS managers – in the so-called "golden sheets" scandal. At the bottom of the affair lies the suspicion that a L160bn (£68m) contract for disposable bedding for sleeper trains was placed improperly and at too high a price.

Mr Elio Graziano, the owner of the supplying company, has not yet turned himself in after the issuing of an arrest warrant in his name.

The Italian media put most of the blame on a management wholly in the hands of the political parties. They also blame this for the FS's extraordinary financial and operational shortcomings.

The current management structure is a product of a 1985 reform which established the railways as managerially autonomous. Within it, however, the president has little operational responsibility.

Mr Giorgio Santuz, Minister of Transport, has seized the opportunity for another attempt to reform the management structure, but not at the expense of weakening the grip of the parties.

He will put to the cabinet on Wednesday a plan based on the organisation at Iri, the state industrial holding group, which has an executively powerful president flanked by an executive committee whose members would be party nominees. The Minister is expected to nominate a special commissioner to run the FS who will then take over as president once the reform law has been passed.

Genscher flies to Tehran for trade talks

MR Hans-Dietrich Genscher, West Germany's Foreign Minister, flew to Iran yesterday for two days of talks expected to cover trade and efforts to free Western hostages held by pro-Iranian militants in Lebanon, Reuter reports from Bonn.

Mr Genscher is the first top-ranking Western official to go to Tehran since the August ceasefire in the Gulf War between Iran and Iraq. His last trip to Tehran, in 1984, was the first by a Western foreign minister since the 1979 Islamic Revolution.

West Germany has been the only big Western power to maintain good relations with Tehran's Islamic leadership, even when two West Germans were kidnapped in Lebanon.

Bonn said Mr Genscher was expected to try to persuade the Iranian Government to put more pressure on radical Shi'ite Moslem groups in Lebanon to free Western captives.

Since the Gulf ceasefire, Iranian officials have expressed increasing willingness to resolve the hostage problem in order to attract Western aid for rebuilding their economy.

Mr Genscher flew to Tehran after two hours of talks with Mr Roland Dumas, the French Foreign Minister.

Telecom leaders seek formula for liberalisation

By Terry Dodsworth, Industrial Editor

LEADERS of the world's telecommunications industry hope to hammer out a compromise this week between governments keen to strengthen control over international transmission of information services and those supporting further liberalisation.

The meeting of the World Administrative Telephone and Telegraph Conference, which starts today in Melbourne, Australia, is aimed at formulating rules that will govern the flow of business telecommunications into the next century.

Any agreement will carry the authority of the International Telecommunications Union, which draws up standards for global communications.

Participants see the conference as a key step in deciding on a regulatory formula for international data and information services carried over the telephone lines – known generally as value added network services.

Some countries, notably several leading European nations, have been lobbying for strict controls that would allow the big national telephone operating companies to regulate virtually every service transmitted on their wires.

The more liberal group, which includes the US and UK, would like to see much greater freedom given to international telephone users. They argue that new services would develop more quickly if companies were allowed to transmit non-voice information freely over lines leased from the telephone companies.

Representatives of international user companies have come out strongly against a detailed legal code of operating practices. The London-based International Telecommunications Users Group (INTUG) says the development of new services could be hampered by over-regulation, and argues that the Melbourne conference should aim only to formulate general guidelines.

The Melbourne conference may also have an impact on the European Commission's efforts to drive through its ambitious reform programme for European telecommunications. In its Green Paper last year, the Commission advocated that all services other than basic voice traffic should be opened to competition. It also suggested a new framework under which user companies would have much easier access to leased telephone lines provided by the network operating companies.

If industry conservatives win the upper hand at Melbourne, it may be more difficult for the Commission to push through its plans in countries where the telecommunications authority is opposed to radical liberalisation.

Alfonsín wins pledges of $9bn investment credits

By Gary Mead in Buenos Aires

PRESIDENT Raúl Alfonsín of Argentina yesterday ended a week-long state visit to Italy, West Germany and Spain, returning with promises of highly favourable investment credits which are worth more than $9bn (£4.9bn) and can be be drawn upon between now and 1992.

In Rome he put the seal on a government-to-government accord unveiled just under a year ago. President Alfonsín, who on December 10 will mark five years in office, signed an agreement setting up a permanent, joint Argentine-Italian government committee to oversee the handling of $5bn-worth of Italian government loans, available over the next four years at interest rates far below current market rates.

The credits, designed to stimulate Argentine economic development, and available to both public and private sectors, are repayable over 20 years, at a fixed annual rate of interest of 1.75 per cent. The Argentine government, which has a foreign debt of $56bn and is keen to find fresh loans, regards the Italian accord, and a similar one signed with Spain for $3bn, as an opportunity to stimulate growth at a time when such highly attractive credit is becoming difficult to obtain.

Of the $5bn from Italy, $1.5bn is available for the current Argentine government due to leave office on December 10 next year following presidential elections in May. The rest will be at the disposal of the succeeding administration.

The Argentine Central Bank will supervise distribution of the loans to borrowers. After deduction of commission, Argentine recipients of the loan will pay annual interest rates of almost 4 per cent.

The projects destined to receive aid range from development of a krill processing plant in Tierra del Fuego ($1.9m) to construction at a port in Rio Negro province ($94m).

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Oct '88	Sept '88	Aug. '88	Oct '87
USA 000's	6,491.0	6,596.0	6,851.0	7,177.0
%	5.3	5.4	5.6	6.0
UK 000's	2,118.9	2,311.0	2,291.2	2,751.4
%	7.5	8.2	8.1	9.8
Japan 000's	1,510.0	1,620.0	1,480.0	1,660.0
%	2.4	2.5	2.4	2.7
Belgium 000's	377.1	381.4	394.8	422.6
%	10.9	11.2	11.4	12.1
W Germany 000's	2,235.0	2,244.0	2,250.0	2,252.0
%	8.6	8.7	8.8	9.0
Netherlands 000's	678.2	687.8	692.3	683.2
%	13.9	14.1	14.2	14.0
	Sept '88	Aug. '88	July '88	Sept '87
France 000's	2,632.8	2,551.9	2,469.7	2,673.6
%	11.2	10.8	10.5	11.4
Italy 000's	3,868.0	3,870.0	3,850.0	3,326.0
%	16.6	16.7	16.6	14.3

Source: (except US, UK, Japan) Eurostat

Peru minister quits over economic measures

By Veronica Baruffati in Lima

THE PERUVIAN Finance Minister, Mr Abel Salinas, has resigned in the wake of his announcement of the Government's latest economic measures.

Mr Salinas, whose resignation is to be confirmed officially today, is known to have opposed the final watered-down version of the plan.

He is said to have handed in his resignation before the announcement of the measures, but for reasons of American Popular Revolutionary Alliance (APRA) party discipline agreed to broadcast the message to the country.

Both Mr Salinas and his deputy minister, Mr Javier Abugattas, who resigned last week, have been working closely with representatives from the World Bank and the International Monetary Fund on an economic programme aimed at eliminate subsidies immediately and closing all fiscal gaps.

President Alan Garcia is known to have opposed this plan because of popular reaction against it, and he succeeded in proving once again where final decisions are taken in the economic field.

Mr Salinas, who has been one of Mr Garcia's most loyal men, has worn several ministerial hats since the Government came to power in July 1985.

Iran suspends prisoner swap

IRAN said yesterday it was suspending its repatriation of sick or wounded Iraqi prisoners of war, Reuter reports from Tehran.

The Iranian news agency IRNA said the operation would be suspended "until the release of Iranian PoWs who were not returned home in the initial stages of the exchange operations".

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E.Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, M.C. Gorman, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: G.D. Owen, Financial Times, Bracken House, Cannon Street, London EC4P 4BY. © The Financial Times Ltd, 1988.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd. Ostergade 44, Copenhagen, DENMARK

OVERSEAS NEWS

EC called upon to develop mortgage directive for 1992

By David Barchard

THE EUROPEAN Community Mortgage Federation, the main body representing mortgage banking in the EC, has appealed to the Council of Ministers in Brussels for specific Community legislation on mortgage finance to make cross-frontier operations possible after 1992.

Mortgage finance falls within the framework of the second banking directive now being prepared by the Commission, though a special directive on mortgages was originally considered.

Recent draft proposals suggest the Commission has shied away from the daunting task of establishing a standard legal framework for mortgage market operations across the Community after 1992 and is planning to issue only very generalised guidelines in the second banking directive.

Unlike other forms of banking, whose main features vary relatively little from country to country and so can be regulated by a fairly generalised Community legal framework, mortgage banking consists of techniques, such as endowment mortgages in the UK or mortgage bonds in Germany, which differ completely between countries.

In its memorandum, submitted to the Council two weeks ago, the ECMF, which represents 28 mortgage lending organisations in the Twelve, identifies three major problem areas in the current draft legislation by the Community on banking.

● Some cross-frontier mortgage loan restrictions, chiefly on the exit of mortgage credit from host countries, will remain.

● The principle of mutual recognition of financial techniques is not explicitly recognized in law. This is the proposal whereby mortgage institutions can operate according to their own home country rules in another Community member. It is widely seen as the only practicable way to create a cross-frontier mortgage market in the short term in the Community, so its absence from the draft banking directive has alarmed mortgage lenders interested in entering new markets.

● Protection of the currency denomination of mortgage bonds, the main instrument of house purchase finance in northern European countries such as Denmark and Germany, seems to have been dropped, again creating serious problems for potential cross-frontier operations.

"The Council wants to speed up the process of issuing a banking directive and so is concentrating on general principles," said Mr Leo Mullende, secretary-general of the ECMF at the weekend. "But unless the points we address in the memorandum are covered, it will be very difficult to have any cross-frontier mortgage finance operations."

Vassiliou to maintain strong defence

A TWIN track policy of reinforcing Greek-Cypriot defence while continuing UN-sponsored peace talks with the Turkish Cypriots was announced by Mr Vassiliou yesterday, Andriana Ierodiaconou reports from Athens.

"As long as Turkish troops remain in Cyprus we have an obligation to boost our defence. At the same time we are ready to sell or give away *our arms and dissolve our* army provided Turkish troops leave," he said after talks with the Greek Government.

"The goal [in the event of military confrontation with Turkey] is to be able to defend the rest of Cyprus long enough to allow other countries to intervene," the president said.

Mr Vassiliou said a "series of decisions" on defence issues were taken during his talks in Athens. He did not disclose them but said they did not include the dispatch of Greek troops to Cyprus. He stopped in Athens on the way back from talks in New York with the UN Secretary-General and Mr Denktash.

The two leaders have decided to continue UN-led peace talks: the second round will be devoted to tabling non-binding proposals on key aspects of a settlement.

Euphoria dies down over Cyprus talks

Denktash and Vassiliou are stepping back from a June deal, writes Bruce Clark

Denktash (right) and Vassiliou: signs of an old game

WHEN Greek-Cypriot President George Vassiliou first met the Turkish-Cypriot leader Mr Rauf Denktash in Geneva on August 15, there was an air of glib optimism. Since then, they have met in Nicosia for 40 hours, and the euphoria has vanished.

The two had no real progress to report to Mr Javier Perez de Cuellar, the UN Secretary-General, last week, though they agreed to restart talks on December 19, and report to the UN in March.

Already, both are stepping back from the target of a deal by June. Signs exist of an old game being played: jockeying for moral high ground, by laying traps for your opponent and crying "Intransigence!" when he declines to fall in.

What can be said is that the two sides have dealt with substance, not detail.

Cyprus has been partitioned into a Greek Cypriot-controlled south and Turkish Cypriot-administered north since the 1974 Turkish invasion, in the wake of a Greek-backed coup.

The two sides agree in principle on reuniting the island as a bizonal federation. But positions remained far apart as the current talks began, so obstacles were inevitable once core issues were addressed.

There were gaps on at least *three issues: the time sequence* of Turkish troop withdrawal and the establishment of a federal Government; whether Turkey retain the right to intervene as a "guarantor", and whether citizens of a federal Cyprus could travel, settle and own property throughout the island. This last problem has been encountered first.

For the Greek-Cypriots, testing Turkish intentions on the "three freedoms" was the best way to determine whether Mr Denktash was interested in a federation worth the name, as they put it. Mr Denktash has dismissed Greek-Cypriot emphasis on the freedoms as propaganda, aimed at branding him intransigent.

The issue does have presentational advantages for the Greek side. Its argument is that world revulsion over apartheid, and West European integration, makes it hard to *explain how a single state* could be ethnically segregated.

Retaliating, as he said, for Greek-Cypriot leaks to the press and lobbying of other Governments, Mr Denktash has made a series of breaches of the talks' confidentiality.

On the "freedoms", he says he accepts them in principle, subject to "regulation" by his zone of the proposed federation. Freedom of movement could be implemented immediately if the Greek-Cypriots in effect forgo freedom of property by accepting financial compensation for homes lost in 1974.

After an exchange of property rights (taking into account Turkish property in the south), further Greek settlement or investment in the Turkish zone would be subject to the zone's approval.

Some of the 200,000 Greek-Cypriot refugees would get their homes back under the unspecified territorial concessions.

The Greek-Cypriots say no territorial concession would justify renouncing freedom of property.

Refugees must be offered either restitution or compensation, they say, adding that many might settle for compensation; and that arrangements could be made to ensure that Turkish-Cypriots' political control of their zone was secure.

As euphoria subsides, some basic parameters are re-emerging.

Each side holds an ace. For Mr Denktash, it is the 29,000 Turkish soldiers who ensure his community's security and his own political authority.

For the Greek-Cypriots, it is world recognition as the Government of Cyprus, which has faciliated their strategy (chosen in the absence of a military option) of "maximising the cost of occupation" for Ankara through intensive diplomacy and a partial economic embargo on the north.

For each side, there are prizes. For the Turks, legitimacy, prosperity, and the removal of one obstacle to Turkey joining the EC; for the Greeks, land and security.

Neither will consider throwing away its ace unless it is certain of the prizes. Hence Mr Denktash's refusal to accept Greek demands that Ankara's troops leave *before* a federal Government is established; and the Greeks' suspicion of suggestions by Mr Denktash that they water down claims to sole legitimacy, or modify the embargo, without a total settlement.

He has disclosed he has made two such suggestions during the current talks, both rebuffed. One was that the Greek-Cypriots end their boycott of Turkish-Cypriot sports clubs; the other was that Greek-Cypriots cease to regard tourists who enter the island via the north as law-breakers, and let them into the south.

Mr Denktash went public with another proposal: that the two sides scale down the level of military forces, in advance of a federal arrangement; this would mean the Greek-Cypriots suspending rearmament and agreeing not to mobilise reserves.

For the Greek-Cypriots, freezing the status quo, or making identical cuts, would perpetuate Turkish superiority. Mr Denktash says the two sides' forces are in rough balance now.

The first round of talks has run into old deadlocks. Success or failure in forthcoming rounds will depend on whether the leader of either side feels sure enough of gaining the prize to throw away the ace.

Customs experts may fan EC-US trade row

By William Dawkins in Brussels

EUROPEAN Community customs experts will be asked this week to vote to refuse recognition to US certificates of origin granted to Japanese photocopiers assembled in California, in a move that could worsen the EC's tense trade relations with both powers.

The European Commission is to demand a vote on the issue at a week-long meeting of an influential EC customs advisory body, due to start in Brussels today. It is believed to have the support of a majority of national officials on the group, the EC rules of origin committee, which has tried unsuccessfully for several months to reach a consensus on this sensitive decision. This is the first time the Commission has openly questioned US certificates of origin.

If the committee accepts Brussels' recommendations that the Californian-assembled photocopiers should be treated as Japanese, Ricoh, the company involved, would face Community anti-dumping duties on its US exports to Europe. These would be in line with the 20 per cent duties Ricoh is already paying on direct exports to the EC from Japan, which the Commission suspects it is trying to circumvent by supplying Europe from its US plant, fed with allegedly dumped components.

While the quantities involved are small, this strict line on rules of origin brings a potential new weapon into the Commission's controversial campaign against dumping. Trade experts attach great importance to the outcome.

The Brussels authorities are asking the committee to rule against Ricoh on the grounds that its Californian photocopiers do not comply with a 1968 EC regulation defining origin as the place where "the last substantial process or operation was performed." Customs officials say the West German, Dutch and Irish Governments do not agree, but they are not enough to block the move.

Brussels launched an investigation into Ricoh's plant in Irvine, California, in April last year, soon after imposing duties on the company's Japanese exports to the Community.

US customs officials are understood to have certified Ricoh's local content as over 40 per cent, while the Commission's investigators estimated it at around half that.

Appeal rejected for leniency towards Chun

By Maggie Ford in Seoul

AN APPEAL by President Roh Tae Woo of South Korea for leniency towards the former leader Chun Doo Hwan, who apologised for his misdeeds last week, was yesterday rejected by opposition leaders.

The opposition described Mr Roh's speech as inadequate. Speaking on television, the president said that Mr Chun should be forgiven because legal punishment would amount to political retaliation. Mr Roh also unveiled a package of reform measures to be completed by the end of the year.

He pledged to release all political prisoners, compensate the families of hundreds killed during the military regime, establish an open system of political donations to end illegal fund-raising, re-write undemocratic laws, reorganise the ruling party and government to purge those involved with Mr Chun, and maintain strict law and order.

The Korea Stock Exchange fell two points after a week which saw a rise in the index of 4.1 per cent.

In a series of opinion polls published since Mr Chun's televised apology last Wednesday an average of 70 per cent of respondents have demanded that the ex-leader testify before parliamentary hearings into corruption and brutality during his regime.

A majority said they did not believe that he had given up all his illegally acquired assets. Opinion was divided over whether or not he should be placed on trial.

President Roh is expected to reshuffle his cabinet shortly and has signalled his intention to drop all members associated with Mr Chun. Mr Roh is reported to be considering appointing a civilian defence minister.

Prosecutors are also starting investigations into high-level officials suspected of perjury during the parliamentary hearing, including intelligence chiefs and several politicians.

Students and dissidents continued demonstrating against Mr Chun at the weekend, briefly invading the ruling party headquarters and fighting riot police in the centre of Seoul.

Zambia seeks cut in budget deficit

By Nicholas Woodsworth in Lusaka

ZAMBIA'S Finance Minister, Mr Gibson Chigaga, on Friday outlined a proposed 1989 budget which observers in the capital Lusaka cautiously welcomed as a step in the right direction towards reviving the moribund economy.

Addressing the Zambian Parliament, Mr Chigaga presented a budget free of foreign balance-of-payments or foreign exchange support. This is the second "go-it-alone" budget presented since Zambia cut relations with the International Monetary Fund in May 1987 over the issue of exchange rates and the government subsidy of consumer goods.

Mr Chigaga outlined plans for cutting government expenditure and increasing revenues to reduce the budget deficit to 5 per cent of Gross Domestic Product from its current level of 9.5 per cent. He also made proposals intended to slow down the nation's 60 per cent rate of inflation, reduce subsidies on essential goods, and encourage much-needed foreign exchange earnings.

Mr Chigaga, while noting that the Zambian GDP was expected to grow 2.7 per cent in 1988, pointed out that GDP growth was exceeded by an annual population growth of 3.6 per cent, resulting in a real per capita GDP decline of 1 per cent. While copper production, responsible for about 90 per cent of Zambia's foreign exchange earnings, declined significantly, higher world market prices allowed the Government to set budget targets for growth in 1989 at 2.9 per cent.

It is estimated that next year's deficit will amount to 1.9bn kwacha (£111m), over 70 per cent of which will come from domestic bank borrowing. Almost 15 per cent of the 1989 budget, targeted at 9.8bn kwacha, is set aside to subsidise essential consumer items.

Some observers estimate that the measures proposed are not wholly sufficient to reduce the deficit to the required level. They have not ruled out the possibility of a further devaluation of the kwacha.

Carrots and sticks for Pakistan's independents

By Christina Lamb in Islamabad

ISLAMABAD has become the focus of Pakistan's political activity as the country waits to hear who will be nominated Prime Minister.

Twelve days after elections in which neither Benazir Bhutto's Pakistan People's Party (PPP) nor Nawaz Sharif's Islamic Democratic Alliance (IDA) won a majority, agents of both side pace the lobby, hoping to capture one of the many independents who have converged on the capital's only good hotel.

Independents command a high price, reaping huge returns well worth their investment in the election. One man from Lahore is holding out for 5m rupees (£150,000), while highly placed sources in the PPP confirm that the party is running out of ministries with which to lure them.

The IDA has less subtle tactics. Midnight visits from police chiefs are not unusual, and almost everyone has some shady deal he would rather not have made public or a loan he would rather not pay back. These days Mr Sharif has an alarming habit of reminding people of such indiscretions over dinners convened to woo support.

In between stints in the hotel lobby, journalists and party workers keep a close watch on who is visiting the real power base – the Presidency, and Chief of Army House – where the decision will be taken. Latest rumours have it that Ms Bhutto is favourite but is having to accept conditions, such as continuation of the Emergency Council set up after President Zia ul-Haq's death, to allow the army a continued say in defence and foreign policy.

Next stop is the Niazi House, where Ms Bhutto is staying. Great excitement was caused by a visit from the country's most influential diplomat, Mr Robin Oakley, the US ambassador. A nod from him is thought essential to Ms Bhutto's chances of becoming Prime Minister of this country, dependent on American aid of more than $4bn (£2.2bn) over the next five years.

On Mr Oakley's departure, journalists resume trying to spot defecting IDA members and counting independents, and later liaise with journalists in Lahore doing the same at the Chief Minister's House. Staff at the Holiday Inn work overtime collecting scraps of paper covered with figures dropped by journalists attempting to calculate whether either side has crossed the magic 108 mark needed for a majority in an elected house of 217.

No one needs a calculator to realise that the PPP, which won 94 seats compared with the IDA's 55, is far nearer. However as the days pass before the President names Pakistan's new prime minister, the false bravado of PPP central executive members is wearing thin.

Acting Pakistan President Ghulam Ishaq Khan will name a prime minister on Thursday, state-run television said yesterday, Reuter reports from Islamabad. It quoted a government spokesman as saying the new Premier would take office on Friday.

● THE Soviet Union held direct talks with Afghan rebels in Pakistan yesterday, for the first time since the start of the 10-year-old guerrilla war, Reuter reports.

The Soviet embassy said the two sides had discussed the release of Soviet soldiers taken prisoner by the guerrillas. Rebel representative Abdul Rahim said: "We assured them that our government would be non-aligned and not hostile towards the Russians."

Mobutu replaces premier in fresh cabinet shuffle

PRESIDENT Mobutu Sese Seko of Zaire, under pressure to reform the economy and tackle the country's soaring debt, has appointed a new Prime Minister and replaced one-third of the cabinet in his fourth reshuffle this year, Reuter reports from Kinshasa.

Mr Mobutu on Saturday dismissed Sambwa Pida Mbagui as first state commissioner (Prime Minister) and brought back Kengo Wa Dondo, a government communique said.

Mr Kengo, a tough fiscal manager who held the post of premier from 1982 until 1986, was credited by Western diplomats with making Zaire "a model student of the International Monetary Fund" and his ouster was a prelude to a rift with international lenders.

Mr Mobutu also dismissed one of two deputy prime ministers, Nyembo Shabani, who was in charge of economy and finance, and named Mwando Nsimba, formerly civil service minister, to take charge of the post.

The 58-year-old President, who has been in power for 23 years, made sweeping changes in other ministries such as agriculture, mines and minerals, information, commerce, transport and planning.

The changes were announced a week after Zaire completed what was officially termed successful negotiations with the IMF aimed at restructuring Zaire's economy and helping it to tackle its $7bn foreign debt.

Grim hunt for Caribbean jobs of the 1990s

Canute James reports on a study of the region's intractable structural problems

THERE ARE too many people of working age in the Caribbean. Their numbers are growing faster than the general population and, with 21 per cent unemployment across the region, several countries project increases of up to 80 per cent in the number of workers by the year 2000.

Assembling Japanese cars, as in this Trinidad plant, will not absorb yet more working people

Mounting unemployment is just one problem which the region will face, according to a recent study on the prospects of Caribbean economies to the year 2000. For economies based traditionally on commodities and tourism, the study contends that there will be reduced flows of international finance and growing protectionism.

The report* commissioned by the Commonwealth Secretariat and the Caribbean Community Secretariat, looks specifically at the English-speaking countries of the region, and anticipates increases in the group's labour force which it says will put pressure on already depressed labour market.

"The modest targets of maintaining 1980 unemployment rates would require very large increases in the supply of jobs and annual average growth rates of real gross domestic product well above recent achievements," it says.

There is little to indicate that the region will easily find the resources to create those jobs. Like many other parts of the developing world, the English speaking Caribbean is afflicted by capital flight and reduced access to foreign financing.

The study described national savings rates in the region as being "generally low and frequently negative." While Trinidad and Tobago and the Bahamas experienced savings rates of between 20 per cent and 40 per cent between 1980 and 1985, "... six countries (Belize, Grenada, Guyana, Jamaica, St Kitts-Nevis and St Vincent) dis-saved in at least one year during the five-year period, Guyana and St Vincent being the most chronic dis-savers." By dis-saving, the report means a net withdrawal of savings.

It argues that the region needs higher rates of capital formation: "Caribbean economies face a difficult situation in terms of access to international finance given the downturn in loan financing, the increasing cost of debt finance, the securitisation of finance and the shift in direct foreign investment away from developing countries and away from resource based industries."

Several countries in the Caribbean have been attempting to break out of their reliance on traditional pillars of their economies and establish new export industries. But they face a formidable task in trying to match existing low cost, large scale producers.

Some countries, such as Guyana, Trinidad and Tobago and Jamaica, have used currency devaluations to increase their export competitiveness. While admitting that the region's export growth is limited by a lack of competitiveness, the study suggests that devaluation as a tool in achieving this could be counter-productive. "Devaluations raise major industrial relations and political problems, frequently do not result in sustained real exchange rate reductions," it says. "Greater reliance is perhaps best placed on domestic pricing policies in both factor and commodity markets and on productivity growth."

Even successful attempts to develop new exports and to expand traditional ones are threatened by an increasing tendency towards protectionism in the industrialised countries. Despite preferential trade programmes to which the countries of the region have access – the United States' Caribbean Basin Initiative, the European Community's Lomé Convention and the Generalised System of Preferences, all of which are not without some problems, the study observes – the region is suffering from an increase in non-tariff barriers. The report is also concerned about the effect of Europe's anti-dumping tendencies, on the Jamaican footwear industry and US trade barriers to Trinidad and Tobago's steel exports.

Low productivity is highlighted. The report points to plant duplication, excess capacity, inadequate capital, technology and maintenance of plant and equipment. "Major development problems face the Commonwealth Caribbean for the remainder of the 20th century," the study concludes. "The problems are already serious and are likely to become more acute unless the right policies are adopted early."

Caribbean Development to the Year 2000: Challenges, Prospects and Policies. Marlborough House, London.

OVERSEAS NEWS

EC gears up for financial services Christmas rush

Lord Cockfield aims to bequeath as complete a 'single market' blueprint as possible, David Buchan and Tim Dickson report

IT looks as if the Brussels Commission is preparing an unusually bulky Christmas stocking for Europe's financial sector. Lord Cockfield is putting the final wrapping on proposals which he plans to put before the EC Council of Ministers by the year's end. They will cover life and car insurance, takeovers, investment services and capital savings taxes.

The reason for the pre-Christmas rush is that Lord Cockfield, master architect of the EC internal market plan, wants to leave as complete a blueprint as possible before he leaves the Commission next month. It is in Europe's highly regulated and nationally fragmented financial services that the single market plan is expected to produce the most dramatic changes, but it is also here that the marrying of liberalisation for operators with protection for consumers is at its most complex.

First in the probable order of appearance in this season of Advent will be a draft directive on life insurance, which the 17-man Commission will consider this week. In the insurance field, the Commission has been re-ordering its priorities in line with last year's European Court judgment. This held that large institutional or professional takers of insurance inherently need less protection in a pan-European market than the man in the street, and therefore the Commission should tackle the first area before the second.

Following this approach, the Commission this year tabled, and won Council approval for, a directive permitting the cross-border writing of large commercial non-life insurance policies, leaving so-called "mass" risks of individual insurance-takers to be dealt with at some later date. Likewise, the directive under consideration this week will only cover those seeking life insurance cover abroad on their "own initiative". At present, of the Twelve, only the UK and West Germany give some legal protection to their citizens placing insurance abroad.

Such placing of "own initiative" life insurance abroad is, however, likely to be only a small part of the total market. The Commission plans to come up next year with a proposal dealing with group pension schemes, accounting for perhaps half total life insurance business and requiring greater care of prudential aspects. Any proposal on life "mass" risks is further off still. A key problem, which the Commission admits is virtually beyond its power to resolve, is the wide-differing tax treatment by EC states of life insurance.

Another Yuletide offering to the insurance industry will be a draft directive permitting cross-border placement of risks by large car insurance-takers, such as those operating car fleets. Here the Commission will probably use the same definition for "large" as in its non-life insurance directive – ie, companies meeting two of three criteria: more than 250 employees, balance sheet total of ECU 6.2m, annual turnover of ECU 12.8m. At present, national restrictions on placing car risks abroad are nearly total.

A vital proviso of this proposal will be that where member states require compulsory insurance – such as against third party risk – their differing national rules must be respected. For instance, the UK requires unlimited cover for injury to third parties, while some other states limit it.

The widest-ranging proposal due to surface within the next month aims to provide the same single market freedoms for providers of investment services as the already-tabled second banking directive would

1992 THE EUROPEAN MARKET

do for banks. On the same basis of home country control, stockbrokers and others would have a single passport to provide broking, market making, portfolio management, and investment advice services in all 12 countries, dealing in such tools as securities, money market, exchange and interest rate instruments, certificates of deposit, and financial futures and options (but not commodities).

Two problems stand out among the rest. One is that the draft directive will include exactly the same foreign reciprocity provision as the second banking directive, and will provoke the same arguments. The financial free marketeers, led by the UK and Luxembourg, abetted by Lord Cockfield inside the Commission, seem to have successfully argued against any notion of retroactive reciprocity (attached to existing non-EC owned institutions already inside the Community) in the case of banking, and they will probably win the same battle on investment services. But what about existing foreign companies inside the Community which subsequently want to branch out into investment services, or for that matter banking?

The other, more intractable problem is harmonising capital adequacy requirements for providers of investment services. (For banks, by contrast, the Commission has already come up with plans to harmonise solvency and "own funds" ratios.) One solution (that of the UK) is to require capital backing to be flexibly matched against the varying market or "position" risks that stockbrokers take in holding securities.

Another solution (preferred by those Continental EC countries that bother themselves with this) is to require a minimum lump sum set aside against all eventualities. But "the first solution can result in over-regulation and the second option in over-capitalisation", says one bemused Commission official.

Creating the famous financial "level playing field" on which banks and securities firms can gambol across 12 countries will require political and technical juggling of the highest order. It will require (a) a capital adequacy harmonisation directive for securities firms as well as banks, and (b) for all the market-opening and prudential directives for banks and non-banks to come into effect at the same time.

No season of supposed Community goodwill would be complete without a proposal on tax, always an area of maximum political sensitivity. The price of last summer's Council agreement to free capital movements was France's successful insistence that the Commission table proposals by the end of this year to prevent tax-dodging in the forthcoming era of free-flowing money.

As a result, the Commission is considering a plan for all EC states to introduce a withholding tax on bank deposit interest and bond income for Community non-residents (most EC states already tax share dividends at source). This will provoke an outcry from Luxembourg and the UK, with the latter arguing that when it removed all capital controls a decade ago, it had no real tax evasion problems and does not see why others should conjure such problems up now.

The Commission has put off its highly complex plan to harmonise corporation tax rates and bases until next year. This postponement causes no dismay among governments. But industry is less than delighted that the Commission is at the same time giving a fresh push to its call for a European Company Statute. Unice, the European employers' federation, is piqued that the ECS contains worker participation provisions but nothing substantive on unsnarling the tax complications of cross-border mergers.

A final area of Commission activity in the next few weeks will be a proposed directive on information disclosure in takeovers. The aim is shareholder protection, ensuring that shareholders on both sides of a takeover get enough information. A particular UK concern is how the Takeover Panel, a self-regulating body which operates on the basis of informal rules, will sit in any formal EC legal framework, and whether contested takeovers – very much a feature of the UK scene – will not be "gummed up" by court action.

Such a directive will not, however, do anything to reduce the barriers, such as the prevalence of non-voting shares and cross-holdings, that make contested takeovers such a rarity on the Continent. In the general context of discussions about EC merger control, the UK has been pressing the Commission to see if it can propose something to reduce these barriers. But the latter seems doubtful about the prospects.

Boeing deal to earn R-R £175m

By Michael Donne, Aerospace Correspondent

ROLLS-ROYCE will benefit by up to £175m in the years immediately ahead as a result of a deal by Ansett World-Wide Aviation Services of Australia to order up to 16 Boeing-757 twin-engined short-to-medium range jet airliners, with the Rolls-Royce RB-211-535E4 jet engines.

The deal is part of an overall order by Ansett for up to 22 Boeing jets, including six of the larger 767-300 extended range twin-engined medium-to-long-range jet airliners, with an option on another seven, in addition to the 757s.

Ansett is the world-wide leasing arm of TNT and News Corporation, which also owns Ansett Airplanes and East-West Airlines in Australia. The engine choice for the 767s will be announced later.

The Ansett deal brings to 111 the number of 757s ordered so far this year with Rolls-Royce engines. Out of the total of 387 Boeing 757s ordered world-wide since production began in the early 1980s, Rolls-Royce has won the power-plant contracts for 231, the rest being powered by Pratt & Whitney of the US.

Boeing says that the 757 is now rapidly assuming the role of the original 727 tri-jet on short-to-medium range air routes, of which some over 1,800 were eventually sold.

The Ansett deal also brings total 767 orders to date to 353 aircraft.

For the year as a whole so far, Boeing has logged a record total of new firm orders for 595 jet airliners of all types, worth some $28bn, and is certain to go beyond the 600 aircraft level before the end of the year. The international V-2500 aero-engine, being built by the five-nation, seven-company consortium, International Aero Engines (IAE), has been cleared for quantity production by the US Federal Aviation Administration.

"This certification recognises that, through our systems and control, IAE can ensure that every production engine delivered meets the FAA's stringent airworthiness requirements," said Mr Mike Dulberger, IAE vice-president for manufacturing.

IAE comprises Rolls-Royce and Pratt & Whitney (United Technologies) of the US, each with 30 per cent, Motoren-und Turbinen-Union of West Germany (11 per cent), Fiat Aviazione of Italy (6 per cent), and Japanese Aero Engines Corporation, representing three Japanese engine companies (23 per cent).

The V-2500 engine is now in quantity production at a rate of 10 engines a month, with two assembly sites, at Pratt & Whitney's Middletown, Connecticutt, plant and at Rolls-Royce's Derby, England, factory.

Setback for Norwegian right-wing party

By Karen Fossli in Oslo

NORWAY'S right-wing Progress Party, which favours lower taxation, privatisation and tighter immigration, has suffered a setback in public support, according to a weekend opinion poll.

An MMI poll shows support for the Progress Party at 7.8 per cent in November, a 3.2 per cent fall since last month (11 per cent), and more than 50 per cent down on June (16.1 per cent).

The Labour party minority Government and the mainstream opposition Conservative party have both won back support lost to the Progress Party earlier this year, according to the poll.

Support for Labour continues to increase. In November, it stood at 38.3 per cent against 35.3 per cent in October and 33.6 per cent in September.

Portugal's draft budget for next year approved

By Peter Wise in Lisbon

THE majority Social Democratic Government's draft budget for 1989, aimed at achieving Portugal's fourth consecutive year of strong economic growth and reducing the burden of a huge deficit, has been approved in Parliament.

Mr Miguel Cadilhe, Finance Minister, said the proposed budget deficit of Es 504bn (£1.9bn) represents 7.8 per cent of Gross Domestic Product, against 8.7 per cent this year. But he added the budget would show a surplus representing 1.2 per cent of GDP if interest payments on the National Debt were discounted.

Government income next year will be Es 1,600bn, an 18 per cent increase on 1988, but spending is forecast to increase only 15 per cent to Es 2,104bn. GDP growth is estimated at 4 per cent, equal to this year's figure, and the fourth consecutive year of expansion at approximately double the European average.

Mr Cadilhe forecasts the inflation rate will fall to between 5 and 6 per cent next year. But the opposition claimed this is an over-optimistic target.

Fiscal revenue for 1989 is forecast to rise 18 per cent, when a sweeping tax reform introducing a pay-as-you-earn system takes effect.

This increase, coupled to the collection of 1988 tax payments that fall due next year under the existing system, will provide a cash flow bonanza for the Government.

A five-year macro-economic plan designed to help Portugal prepare for the coming of the single European market in 1992 was approved alongside the budget proposals.

SHIPPING REPORT

Tanker sector marked by overall buoyancy

By Nick Garnett

THE overall buoyancy of the tanker sector was the most marked feature of the shipping industry last week, with shipbrokers expecting the market to remain firm for at least the rest of the year.

With the prospect of Opec agreeing reduced quotas, possibly leading to higher oil prices, buyers have been trying to obtain as many oil cargoes as possible.

In the Gulf, all sizes of vessels have been in demand, with rates to the West in the mid-Worldscale 60s, and to the East about Worldscale 70, according to shipbrokers E.A. Gibson.

A 135,000-tonner was reported fixed from Iran to the Black Sea at Worldscale 125. Italian charterers paid Worldscale 150 for an 80,000-ton cargo to East Africa.

Tankers also dominated the purchase market. Galbraith's, another London shipbroker says a 1976-built crude carrier of 267,000 dwt was bought by a Hong-Kong based buyer for $22.8m.

The Phillip's Enterprise, a 233,000-dwt ship built in Japan 15 years ago, was sold for $14.25m.

In the dry cargo market, brokers reported another good week as both spot and time charter rates continued to improve, particularly for Panamax ships.

The key US-Gulf to Japan Panamax rate moved up to around $24.50 towards the end of the week, after easing back from the same level at the end of last week.

Demand for smaller ships improved in the Atlantic.

THE COCAINE BUSINESS

Illicit trade threatens security of producer countries

WHEN German pharmacists first isolated pure cocaine from the Andean coca plant in the 1880s, it proved a breakthrough in modern medicine. Pure cocaine was initially employed (with the enthusiastic backing of Sigmund Freud) as an anaesthetic in eye surgery, for which no previously known drug had been suitable. It was then extended for use in nose and throat surgery because it could both anaesthetise tissue and constrict blood vessels, so limiting bleeding.

A hundred years on, such beneficial uses have been largely forgotten. Instead cocaine, originating in South America, has generated a vast illicit drugs trade, whose ramifications become daily more complex and international. Cocaine has displaced heroin, marijuana and other illicit drugs as the most profitable business in the US and has begun to make inroads in Europe. The Colombian drug barons behind the business make the sinister claim that cocaine has been the most profitable mass product of the 1980s.

Unlike cannabis (marijuana and hashish) and heroin/opium, cocaine is a relatively recent phenomenon in the international drugs business, spanning about 20 years. By way of comparison cannabis production worldwide last year was 33 times greater than cocaine, while opium production – the basis of heroin – was four times greater. The real impact has only been felt in the past decade.

Cocaine has thrived as a result of a classic combination of market forces: an easily produced product in major demand with enormously high added value, whose main market, the US, is close to the source of supply. For the suppliers, cocaine has the attraction of being infinitely less bulky to transport than marijuana and possessing an added value close to heroin; while its use has been popularised on the belief that it is less addictive and less harmful to health than heroin. These market forces are so powerful that it has acquired a momentum of its own.

The cocaine business has grown so fast that governments in Latin America, the US and Europe have proven wholly ill-prepared to cope.

As a result, the cocaine trade now impinges on the producer countries' national security, undermines and corrupts their justice systems, distorts their economies, creates serious addiction problems and complicates relations both with their neighbours and more importantly with the US.

The same considerations have begun to apply in the "transit" nations. These are the countries which happen to be on the transhipment route from Latin America to the US.

In the US itself, a new group of violent and financially powerful criminals have emerged.

REPORTS BY ROBERT GRAHAM

The problem of drug-addiction has been exacerbated and cocaine is now the drug most responsible for filling hospital emergency rooms. Drugs have become a major domestic issue in the US. This month President Reagan signed into law a bill giving more teeth to the fight against drugs, creating a national drugs co-ordinator of cabinet rank.

Drugs have developed as a major irritant in US relations with Latin American countries, from Mexico through to Panama and Colombia. This is essentially because of the rise of cocaine. (In the case of Mexico the heroin trade is a serious problem, with Mexican-grown poppies now accounting for more than 40 per cent of heroin consumed in the US.) As a result of the 1986 Anti-Drug Abuse Act, the US president must certify another country's anti-drug programmes and is permitted to introduce sanctions, such as blocking loans, against those that fail to comply.

Efforts to stamp out cocaine production have proved remarkably ineffective.

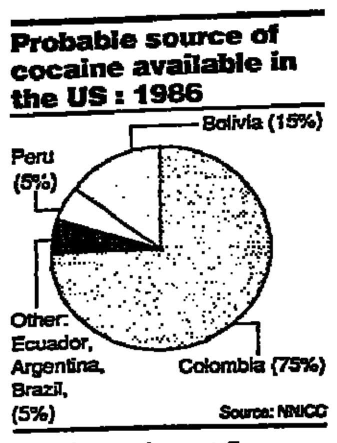
The traffickers have created too many vested interests in high places. Officials have been corrupted on a massive scale from Bogotá to Miami and the traffickers are always several jumps ahead. "Latin American narcotics-producing countries seem to be losing ground – if not faith – in their struggle against drugs," concluded a report earlier this year by the Inter-American Dialogue, a group which consisted of prominent US and Latin American academics and politicians.

On conservative estimates, cocaine production from essentially four countries – Bolivia, Colombia, Ecuador and Peru – has increased more than five-fold in the past 15 years. Most of this increase has been in the 1980s. The Drug Enforcement Agency (DEA) in Washington reckons that Latin American cocaine production capacity totalled at least 322m tons last year.

Discounting wastage, seizures and consumption in the producer countries, this increase is reflected in demand within the US. According to the National Narcotics Intelligence Consumers Committee (NNICC) the inter-agency body to co-ordinate the fight against drugs in the US, cocaine consumption doubled between 1982 and 1985. There are now some 6m US cocaine users.

Drug enforcement officials believe the country has reached a "saturation plateau" for the drug. Saturation is borne out by three factors: a halving of wholesale prices in

Probable source of cocaine available in the US : 1986



the US over the past five years, a sharp rise in the purities of street-level cocaine in the US (up from 21 per cent in 1981 to 55 per cent last year) and finally the move to sell greater quantities in Europe, where prices are as much as three times higher.

Despite constantly upgraded resources, improved technology and greater international co-operation, DEA officials admit that the battle is not being won. Drug interdictions, arrests of traffickers and asset seizures of the big organisations behind the trafficking have increased exponentially. But interdiction remains a mere drop in the ocean.

Drug seizures have increased dramatically; but they still tend to mirror incremental supply and demand. In 1977 the DEA seized a mere 200 kilos of cocaine throughout the US. Ten years later the seizure level had risen to a staggering 51 tons. However, less than 15 per cent of all cocaine entering the US is being interdicted.

Equally significant, less than 1 per cent of all profits annually generated from illegal drugs sales is being seized. Last month's arrest of 80 people in Florida, London and Paris on charges of alleged laundering of cocaine profits through the Luxembourg-based multi-national Bank of Credit and Commerce International involved a mere $32m.

The illicit cocaine trade is reckoned alone to generate $20bn a year; yet the BCCI "sting", set up by US Customs officials and their international counterparts, has been the most elaborate single operation so far to combat alleged laundering. The DEA last year seized assets worth $504m but this related to the overall drugs trade whose combined cash flow within the US is conservatively put at more than $50bn.

The scale of the business is sometimes hard to grasp. Last month police raided a laboratory in the Brazilian Amazon, uncovering electrical installations capable of powering a town of 10,000 people and facilities to produce 500 kilos of cocaine a day. Such capacity would more than satisfy the entire annual demand in both Europe and the US market.

The laboratories proliferate like triffids. The discovery of such a large laboratory in Brazil demonstrates how police pressure in the main manufacturing countries of Colombia, Peru and Bolivia merely pushes production elsewhere.

In the past five years the Colombian authorities have destroyed more than 3,400 laboratories but Colombia still supplies at least 75 per cent of all cocaine available in the US, according to the NNICC.

The sheer complexity and sophistication of the drug barons' operations can be gauged from some of the chemical seizures by the Colombian authorities. Between 1985-88, the authorities seized over 395,000 gallons of ether and 167,000 gallons of acetone. These are the two precursor chemicals essential for refining cocaine paste into cocaine hydrochloride.

The cocaine business has become a full-scale industrial enterprise even if the production process takes place unseen in remote jungle laboratories. The business is so successful it is in danger of becoming institutionalised. At the same time the prospect of making large covert profits encourages not merely the drug barons to participate but also intelligence agencies.

Many such allegations been made against the US Central Intelligence Agency in this respect, and several of their operatives have been found to be involved in the drugs trade, notably in connection with funding the Contra rebels in Nicaragua.

Odds in favour of drug barons

IF THE fight against cocaine is to have more success, there must be more international co-operation to control demand and a much clearer focus on the issues of eradication, interdiction and seizure of drug profits.

ERADICATION. Some 60 per cent of all coca leaf comes from the Huallaga Valley in Peru: remove this and a formidable, albeit temporary, dent is made in cocaine supply.

All the cocaine producer countries endorse eradication programmes. Coca bushes are either burned by the military or peasants are encouraged to grow alternate crops. But it takes 60 men one day to clear a hectare and such manual operations are more a demonstration of government authority than a coherent attempt at eradication. Equally attempts to persuade peasant farmers to grow alternate crops are undermined by lack of funds and trained personnel and ingrained customs.

Crop spraying is the most practical alternative. This has not been done for fear of damaging the ecology. However, this year the Peruvian Government agreed, in collaboration with the US Drug Enforcement Agency, to begin trials in the Huallaga Valley of the defoliant, Tebuthiuron, whose trade name is Spike.

In June, just when the trials were about to start, Eli Lilley, the US manufacturer of the defoliant, refused to sell it on the grounds that the product could be ecologically harmful and that the company and its employees had been threatened by the drug barons. The DEA had described the prospect of using Spike in Peru as the one "hopeful" factor in the gloomy overall picture of combatting drugs abuse.

INTERDICTION. Successful interdiction means seizing the drug at any time between laboratory stage and distribution, as well as destruction of production and transport facilities (chemicals, laboratories, airstrips etc). The odds are weighted in favour of the drug barons: the producer governments and the transit countries simply lack the resources. The Bolivian, Colombian and Peruvian armed forces are on a war footing against drugs. In Mexico dealing with drugs absorbs 30 per cent of the military's resources and in the Bahamas it dominates police activity. The combined Bolivian-US military operation, "Blast Furnace", in 1986 destroyed facilities which could provide 20 per cent of US cocaine consumption; but the overall effect on cocaine supply was negligible. The traffickers can easily shift sources of supply from one region to another and from one country to another.

Latin American governments console themselves that if the US cannot police effectively its own territory against the inflow of drugs, they cannot be expected to do any better. Certainly US agencies are more critical of foreign governments than their own efforts; corruption within the US is one reason why so much cocaine entering the US escapes interdiction.

The level of interdiction would improve with closer co-operation and co-ordination between governments. The DEA in private vents its frustration at not being able to do more beyond the US borders with its local agents. But this has to be weighed against the risk of the US being seen to interfere in domestic politics.

ATTACKING PROFITS. The cocaine business is thriving because of the vast profits involved, a 12,000 per cent mark-up between the production cost and retail sales on the street in the US. Seizure of financial assets generated by the drugs trade has become a vital component of the fight against the traffickers.

Since 1980 with a tightening of bank regulations on deposit disclosures, the US Government has taken a lead in emphasising this aspect of the fight against drugs. In the past three years the US has been more aggressive still on money laundering, establishing treaties with a number of Caribbean offshore centres, as well as Switzerland, that permit access to financial information. In 1986, the US introduced new federal powers to seize assets under the Money Laundering Control Act – a measure subsequently reflected in UK banking legislation.

Efforts to seize drug profits run up against two barriers:

- The complexities and sophistication of international banking techniques make tracing illegal funds time consuming and court cases difficult to stand up.
- The existence of a plethora of tax havens and offshore financial centres protected by tight secrecy laws which are accepted as part of the international financial system.

Insufficient efforts to cut demand

"If the market for cocaine did not exist, then there would be no business." Variations of this statement are routinely made by ministers in every cocaine-producing and transit country.

In other words the basis of the problem lies in the US, Canada and those European countries which generate a demand for drugs. Without the demand, so the argument goes, cocaine would have remained at the level of an inoffensive cottage industry.

That the US and other Western industrialised countries generate a huge demand for illicit drugs is beyond question. Nevertheless, the fight against drugs still devotes insufficient attention to demand. Between 1981 and 1987 US federal expenditure on drug enforcement doubled but budgetary support for prevention, education and treatment was unchanged at $400m.

The demand side has been given less attention because education campaigns against drugs abuse are complex, require large numbers of motivated trained personnel and offer results that are unspectacular in media politics. In contrast, interdiction of supplies is spectacular, provides tangible proof of results and generally sidesteps the vexed question of deep-rooted corruption in the police. Thus while no one would deny the often heroic efforts of the Drug Enforcement Agency in the US and other agencies worldwide, too much emphasis is too easily placed upon interdiction.

Marijuana use appears to have peaked and heroin consumption held steady. But none of the experts can agree whether this is a result of effective propaganda campaigns or changing social attitudes and the introduction of habits like cocaine. The overall demand for illicit drugs in the US and Europe still follows an upward curve. Cocaine consumption has grown in leaps and bounds. Since 1982 gross consumption in the US, which represents almost 90 per cent of the total outside Latin America, has risen from 32 tons to 79 tons last year.

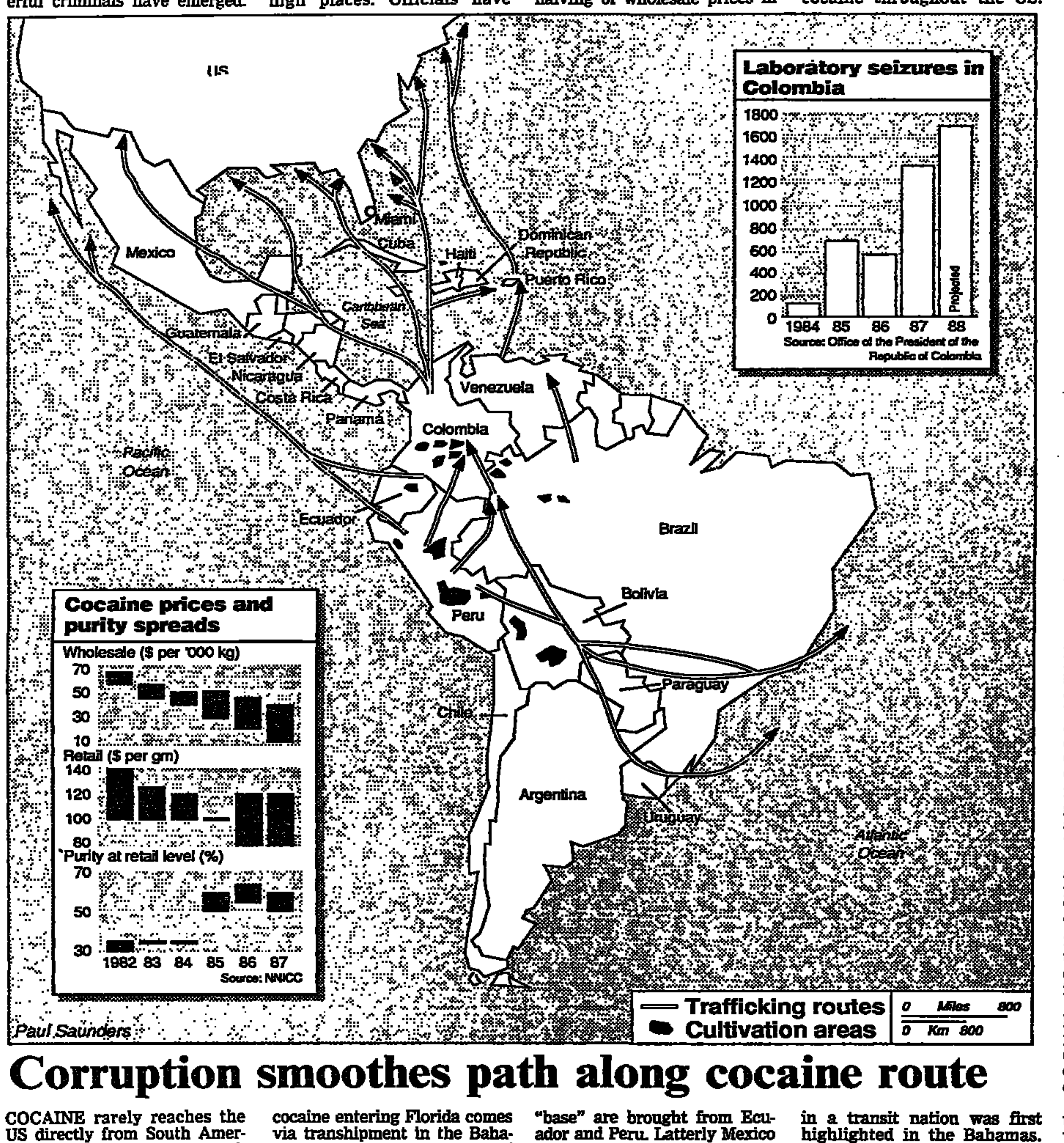
The drug is readily available in all the larger metropolitan areas of the US. Although wholesale prices have come down during this period, street prices have not fallen in line.

A telling indicator of the cocaine habit is the rise in the number of cocaine-related hospital emergencies. These rose almost four-fold to 26,186 between 1984-87 (this figure excludes New York). Measured against 1980 the increase has been ten-fold in such hospital emergencies. Hospitals are now dealing with twice as many emergencies caused by cocaine as by heroin.

US hospitals have also noted an increase in the combining of cocaine with other drugs, especially heroin, marijuana and phencyclidine (PCP).

Far from dampening demand, abundant supplies of cocaine in the past three years have made it possible and highly profitable to develop less expensive cocaine products. Principal among these is crack, now being abused "in near epidemic proportions in some communities," observes a US Justice Department report.

Crack is manufactured by converting cocaine hydrochloride back to base form primarily through the use of baking soda and water. It is inexpensive, highly addictive and physically and emotionally damaging.



Coca cultivation encouraged by deep Andean traditions

THE coca bush is indigenous to the high jungle areas of the eastern Andean foothills and for centuries mastication of the green, tear-shaped leaf has served to ward off hunger and cold, as well as to figure in religious ceremonies. As many as 3m people throughout South America chew coca leaf. The bush has been cultivated usually on marginal land, providing a better return than other crops because it can be harvested year round, needs little care and is long-lasting.

The current phenomenon of coca cultivation to service a vast international illicit drugs business therefore stems from a commodity that has deep cultural, economic and social roots in Andean society – arguably deeper than opium in South East Asia.

Peru is the largest single producer of coca leaf, accounting for almost 60 per cent of all production. The bulk of this is grown in the Huallaga Valley, a remote region in Peru's central Andean chain. Bolivia accounts for another 28-30 per cent, originating mainly from Chapare in the Department of Cochabamba and the Yungas region. The remainder is grown in Colombia, Ecuador and, though still in small quantities, in Brazil and Paraguay.

Before becoming a marketable commodity, cocaine requires extensive processing. This occurs in three phases: The harvested leaves are reduced to a paste, the paste is then converted into "base" cocaine which is finally refined into cocaine hydrochloride.

According to DEA figures, a hectare of planted coca bush yields an average one ton of dry leaf. Roughly 500 kilos of dry leaf will produce a kilo of cocaine HC1.

Estimates of annual production are based on aerial surveys and satellite photographs taken of growing areas by Latin American governments and US government agencies. Last year the National Narcotics Intelligence Consumers Committee reckoned conservatively that 195,000 hectares were under coca cultivation, up from 145,000 hectares the previous year. However, the NNICC admits that production could cover as much as 235,000 hectares. Since only 10,000 hectares in Peru and 12,000 hectares in Bolivia are legally permitted for traditional use, well over 90 per cent of all production is illegal.

Estimating cocaine yields is more complex since the content of the drug in the leaf varies from between 0.23 per cent to as high as 0.85 per cent.

The NNICC believes that the potential cocaine HC1 capacity from the area sown is at least 322 tons. In practice total cocaine production is probably two-thirds of the latter amount. Such figures are the subject of intense debate within the US agencies, among Latin American governments and by independent experts. In Peru some local estimates put the area under cultivation as high as 300,000 hectares.

All experts are agreed there is substantial over-production. Even allowing for wastage, seizures and expanding use of cocaine base and cocaine HC1 in Latin America, probably more than twice as much cocaine is being produced than is consumed worldwide. Over-production is evident in the falling price paid to the peasant farmers for leaves, through to the wholesale price in Miami of cocaine HC1. In the past four years Miami wholesale prices for cocaine HC1 have dropped from a high of $55,000 a kilo to as low as $12,000.

Traditionally, the leaf has been converted into paste and "base" in Bolivia and Peru. This has then been taken by light aircraft to Colombia, whose more sophisticated industrial infrastructure carries out the refining. To produce the finished commodity, it requires nearly 12 kilos of ether to convert a kilo of "base" into a like quantity of cocaine HC1.

Where the Colombians cultivate leaf in their own country, they tend to process it directly into "base". It is the Colombians who have imposed a "quality control" on the finished product.

The Colombian cocaine cartels have sprung up in less than two decades on the back of small-time contraband, emerald smuggling and marijuana exports. The billionaire bosses of the Medellin cartel, responsible for 80 per cent of all cocaine entering the US, are a first generation mafia, mostly of peasant and small trader stock. They have ruthlessly taken advantage of Medellin's resources as the most industrialised city on the Pacific side of South America and *exploited* Colombia's unique geographic position as the gateway to the US.

The Medellin cartel is all the more successful because it is vertically integrated – from controlling the farmers who grow the leaf, through to the transport and distribution in the US. The cartel is even credited with manufacturing its own plastic bags for packaging the drugs.

Corruption smoothes path along cocaine route

COCAINE rarely reaches the US directly from South America. It is less vulnerable to seizure and interdiction if transported either through Central America and Mexico, or via the Caribbean. Also light aircraft, which carry 45 per cent of all cocaine into the US, do not have the range with heavy loads to reach North America.

The favoured form of transport is for light aircraft to leave from private (and illegal) airstrips on the Colombian Caribbean coast and land on a Caribbean island. There the aircraft is either refuelled or the goods are transferred to another plane or a fast launch. Large vessels also act as mother ships, offloading to speed-boats in international waters off southern Florida.

As much as two-thirds of all cocaine entering Florida comes via transhipment in the Bahamas, according to estimates of the Attorney-General's office in Nassau. The 700-odd islands and cays of the Bahamas chain which stretch up to Florida are difficult to police and offer ideal facilities. Other Caribbean routes go via the Dominican Republic, Haiti, Jamaica and Puerto Rico, says the US Drug Enforcement Agency.

Alternatively, light aircraft and vessels carry the cocaine to locations in Panama, Honduras, Guatemala, Belize and Mexico. The long Mexican-US frontier is ideal for land transport, especially for direct access to Los Angeles and San Francisco, the West Coast distribution centres. Central America and Mexico tend to be favoured when cocaine and "base" are brought from Ecuador and Peru. Latterly Mexico has begun to possess refining laboratories, operated by gangs involved in the Mexican heroin and marijuana trade teamed up with Colombians.

The transhipment/staging-post part of the operation thrives for the same fundamental reasons as the expansion in production. Levels of unemployment are high, rural communities are poor and isolated, and the authorities are easily corrupted. For an average shipment of one ton of cocaine, the local "facilitators" share up to $100,000 between them. This kind of money is hard to resist when it only entails the local security forcces looking the other way for half an hour.

The extent of corruption caused by the drugs business in a transit nation was first highlighted in the Bahamas. The 1984 Royal Commission Report put the Bahamas Government of Sir Lynden Pindling under the microscope. Corruption was found right up to ministerial level.

Two years later Mr Ernest Saunders, then Prime Minister of the Turks and Caicos Islands, a British Caribbean dependency, was arrested and subsequently imprisoned in the US for conspiracy to import cocaine.

Latterly, international scrutiny has turned on Gen Manuel Antonio Noriega, the Panamanian strongman, whom the US Government accuses of converting Panama into a drugs centre. Gen Noriega faces serious drugs charges in Florida related to cocaine trafficking.

Foreign exchange boost at expense of public morality

BOLIVIA, Colombia and Peru have been dubbed cocaine economies. It would be more appropriate to talk of them as cocaine societies.

The cocaine business has provided a cushion of employment and vital foreign exchange during the past five years of debt crisis, most notably in Bolivia and Peru. In a narrow sense this could be considered beneficial. However, the broader effects have been profoundly detrimental to the rule of law, public morality and nascent democracy.

The drug barons have become so powerful, especially in Colombia, that they are a sort of fifth estate and it is increasingly difficult to differentiate between monies that are clean or dirty. Moreover the effects of the business are spreading ever further, so that scarcely a country from Mexico to Argentina is unscathed.

In Bolivia, as many as one in three of the active population is believed to be involved directly or indirectly in coca production and transportation. In Peru and Colombia, the employment effects are less notable. The impact is far more in terms of fuelling the existence of parallel dollar economies and providing invisible support to the balance of payments.

Figures from the Colombian central bank, Banco de Reserva – covering personal remittances, transfers and gifts plus tourism – suggest that the annual inflow of "narco-dollars" from cocaine and marijuana is around $900m. This is half a poor year's coffee sales. Tangible evidence of the quantity of narco-dollars in Colombia can be found in the parallel exchange rate for the dollar, often lower than the official rate.

The drug profits were initially laundered inside Colombia by investments in construction, financial institutions and agricultural estates. But in the past eight years the assets of the drug barons have accumulated so dramatically that they are now involved in virtually every sector of the economy.

In 1984 the leading figures in the Medellin cartel offered to pay off the country's then $12bn foreign debt in exchange for an amnesty. That offer is still apparently on the table and underlines the financial muscle of the drug barons. A similar proposal was made by Roberto Suarez, dubbed Bolivia's king of cocaine, to pay off that country's $3bn foreign debt.

The financial muscle derived from cocaine profits is being ruthlessly deployed to facilitate the growth of these illicit trading empires. The drug barons can easily tempt poorly paid public servants and corrupt at even the highest levels of state. Where corruption fails, crude force steps in. The drug mafia in Bolivia long relied on a marriage of convenience with the ruling military: the military were paid off in return for letting the drugs operation go unmolested. The advent of a civilian government three years ago merely shifted the emphasis of corruption from the military to the politicians.

In Peru and Colombia, the drug barons are also known to have bought tame officers. At the same time, they have formed a more sinister alliance with leftist guerrilla movements, who are paid in weapons and cash for protecting coca crops. This has complicated enormously the fight against guerrilla subversion in both Colombia and Peru because the guerrillas' financial resources have been strengthened and their firepower increased.

The tactical alliance of the drug mafia with leftist guerrilla groups, while weakening the power of the state in large areas of rural Colombia and Peru, now acts to conceal the real origin of much terrorism. The Colombian drug mafia has sought since 1984 to eliminate any politician, public figure or official standing in their way, especially judges and policeman fighting narcotics.

As a result, the judiciary has been so terrorised that judges are afraid to hear cases against prominent cartel figures and arrest warrants are rendered meaningless pieces of paper.

UK NEWS

Dublin concern grows over request to extradite priest

By Kieran Cooke in Dublin

CONCERN was growing in Irish Government circles at the weekend over the case of Father Patrick Ryan, the Irish Roman Catholic priest wanted by the British authorities in connection with a series of IRA murders and bombings.

The British have presented an extradition request for Father Ryan but Irish Government sources were sceptical that the priest would be handed over to the British.

A further difficult period in Anglo-Irish relations is likely.

Yesterday there were demonstrations in Dublin against any move to fly Fr Ryan to Britain.

Fr Ryan, 58, was arrested by police in Brussels last July on charges of carrying a false passport. Britain alleges that Fr Ryan has been a key figure in the IRA's fund raising and arms procurement operations in Europe. London sent an extradition request to Brussels, accusing Fr Ryan of conspiring to murder and causing explosions.

Fr Ryan has been on hunger strike in a Brussels jail for the last three weeks. Backed by a growing anti-extradition campaign in Ireland, Fr Ryan said he would not have a fair trial in Britain.

Last Friday, the Belgium authorities, alarmed by reports that Fr Ryan was near death, flew the priest on a special military plane to Dublin.

Fr Ryan, who was able to walk unassisted from the aircraft, is now in an exclusive £300 a day clinic on the outskirts of Dublin.

The Irish authorities say the priest is not wanted for any offences committed in the Republic and is not under any special guard.

But the Government of Mr Charles Haughey, the Irish Prime Minister, is clearly embarrassed by the affair. The Irish cabinet met in special session when it became clear that Fr Ryan was being flown to Dublin.

Under new legislation passed by the Dail, the Irish Parliament, late last year, extradition requests must first be submitted to the Irish Attorney General. He then decides whether or not there is sufficient evidence to proceed with court action.

The Irish Government says it remains committed to fulfilling extradition requirements. Members of Mr Haughey's governing Fianna Fail party have called for an end to extradition agreements with Britain.

There is a growing perception in the Ireland that Irish citizens can no longer expect a fair trial in British courts.

The man at the centre of this most recent extradition case has been wanted by the British authorities for some time. Fr Ryan was ordained a priest in 1954 and worked as a missionary in Tanzania and the US.

In recent years he has lived in Spain. Relatives say he left his Pallotin Order of Priests but remains a priest. He is believed not to have fulfilled his priestly duties since 1974, after a Church warning about his Republican fund raising.

Location allowance boom in south east

By Charles Leadbeater and David Thomas

EMPLOYERS in the booming south-east of England are facing increasingly intense pay and recruitment pressures, according to three surveys published yesterday.

Many special location allowances have increased dramatically as employers began to use them to ease recruitment difficulties, rather than to offset higher living costs according to a survey by Industrial Relations Review and Report.

The higher location allowances paid by finance sector employers have pushed up the median London allowance to £2,250 a year for non-manual workers, according to the report. The four largest retail banks paid £50m a year in London allowances last year.

Among the most dramatic allowances, staff at Allied Dunbar won a 36 per cent rise in London weightings and Legal and General staff working in the City of London financial area and the West End won a 178 per cent rise.

Only Imperial Chemical Industries, with a London allowance of £3,000 a year and Shell, the oil company, with an allowance of £2,700 a year match the allowances paid by the banks.

Most retail employers are taking a more flexible approach, with payments aimed at particular stores and categories of staff.

Lawson to defend strategy as CBI warns over pound

By Philip Stephens and Ralph Atkins

THE Confederation of British Industry, the employers' body, yesterday warned that the strength of sterling may damage Britain's export prospects as Mr Nigel Lawson, the Chancellor of the Exchequer, prepared a strong defence of his economic strategy.

Manufacturing companies responding to the latest CBI industrial trends survey indicated that their overseas order books had fallen to their lowest since April of last year. The employers' organisation blamed sterling's appreciation over the past few months.

Mr Lawson, who has faced mounting criticism from opposition parties after October's record trade deficit and the rise in interest rates to 13 per cent, will defend his strategy in the House of Commons tomorrow.

The scheduled debate on the economy is being seen at Westminster as an important test of the Chancellor's ability to maintain the confidence of both Conservative MPs and of the financial markets.

Mr Neil Kinnock, the opposition Labour leader, yesterday accused Mr Lawson of incompetence and arrogance in refusing to consider alternatives to high interest rates to close the trade gap. A few Conservative MPs, including Mr John Biffen, the former leader of the House of Commons, also voiced unease about the reliance on interest rates.

Labour is convinced that an expected rise in the rates charged on home loans next month and the prospect of further increases in the inflation rate have left the Chancellor looking increasingly vulnerable.

At the weekend, however, Mr Lawson insisted that there was no need for a change of course by the Government. Interest rates would stay high for as long as needed to contain inflationary pressures.

The general feeling at Westminster is that Mr Lawson can expect strong support from Conservative MPs in tomorrow's debate despite some unease over the outlook.

Mr Terence Higgins, the chairman of the Treasury and Civil Service Committee, commented yesterday that: "The party as a whole supports the priority which the Chancellor is giving to the defeat of inflation and recognises that higher interest rates are needed in present circumstances".

Mr Lawson indicated clearly at the weekend that he will not bow to calls that he should allow a devaluation of sterling to improve industry's competitiveness. His message is that companies can improve their position in domestic and overseas markets by holding down costs – notably the level of pay awards.

He can also draw some comfort from the CBI's own latest economic forecasts, which suggest that exports will recover significantly during 1989. Exports of goods and services are expected to grow by 7.6 per cent in 1989 compared with 1.3 per cent this year.

The trends survey, which is compiled separately from the forecasts, provides mixed signals for financial markets. Evidence of a slowdown in output could provide some comfort but fears that British exports may fail to show substantial growth in coming months could add to nerves about the trade position.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said: "Although a slowing in activity to more sustainable rates is to be welcomed, the position on exports is a little disquieting."

The survey suggests that manufacturing output growth to the end of the year will be strong but less than in summer months. Of the 1,428 respondents, 35 per cent expected output volume to increase in the next four months while 10 per cent forecast a fall.

The CBI's forecast for the economy – compiled before last week's trade figures and interest rate rise – is optimistic that economic growth will slow next year to a more sustainable level. Inflation is expected to rise to above 7 per cent in the first half of next year before moderating.

The CBI warned that its relative optimism depended on high interest rates being sufficient to damp consumer spending and that the pick-up in inflation early next year would not significantly affect pay settlements. It also assumed continued buoyancy in the world economy with the US dollar depreciating only modestly.

London nurses to intensify protests

By Charles Leadbeater, Labour Editor

HUNDREDS of nurses at some 17 hospitals are expected to go on strike today as part of a day of action over the nurses' regrading dispute organised by Nupe, the public services' union.

Thousands of nurses are expected to join rallies and leaflet shopping centres and railways stations.

Health union leaders warned that the dispute was almost certain to escalate this week as local branches decided how to respond to the breakdown last week of talks between the unions and the Government, which had been arranged by Acas, the conciliation service.

Mr Bob Jones, Nupe's national health officer, said that branches would react angrily after learning that the the Government had been unwilling to reneogiate parts of the regrading award or consider union complaints over how it has been implemented.

About forty midwives at the North Middlesex Hospital, London, are this morning expected to hand in their resignations in protest at the way they have been regraded.

Mrs Sheila McIlroy, the Royal College of Midwives' director of industrial relations said it was likely that other midwives would take the same course of action.

Mr Kenneth Clarke, the Health Secretary, is today likely agree to meet the RCM to discuss midwives' grievances. He is expected to offer to explore how individual appeals over re-grading may be heard more speedily.

The RCM, which represents about 32,000 midwives, believes that the Department of Health is preventing local managers from awarding midwives higher grades to reward clinical expertise.

UK NEWS

Kinnock calls for investment and credit controls

By Charles Hodgson

THE LABOUR Party yesterday insisted that the Government should take immediate steps to stimulate industrial investment and consider introducing credit controls in response to last month's record trade deficit and the further rise in interest rates.

Mr Neil Kinnock, the Labour leader, said that investment to boost productivity and for training and research and development was the "only answer" to the current balance of payments deficit.

"Until these requirements of the supply side are taken seriously by the Government and until they sponsor a new strong competitive base for British recovery, we are going to be in the position, to a greater or lesser extent, that Lawson has thrust us in now," Mr Kinnock said.

Labour's attack on the Government's strategy in a Commons debate on the economy tomorrow will focus on the Chancellor's "dogmatic" attachment to interest rates as the sole weapon in cooling the consumer credit boom.

The Labour leader accused Mr Lawson of "incompetence" and "arrogance" in not considering alternatives. Mr Kinnock conceded that financial deregulation had complicated the task of introducing credit controls but suggested that consumers should be required to "put more money down for consumption" before buying goods.

"That could have the effect of slowing off the demand and getting us the soft landing that would not in the process be creating more problems of smashing up so much of our chances of winning new markets and becoming more competitive."

Mr Kinnock said small and medium-sized companies, on which Britain relied most for winning new markets, were being hit by an uncompetitive pound and high interest rate costs. He called on the Chancellor to reverse the top-rate tax cuts in the last Budget.

Consumer saving will 'grow from end of year'

By Ralph Atkins, Economics Staff

BRITISH CONSUMERS will save more and their spending will increase less rapidly in the next three years, as slow growth in house prices and high interest rates start to bite, says a study published today.

In a report compiled before last week's trade figures and the one percentage point rise in base rates, Stanliand Hall, the business forecasting group, predicts a marked slowdown in consumer spending next year.

It expects a rise of just 2 per cent in 1989 compared with 5.2 per cent in 1988. A growth rate of just 1.4 per cent is forecast for 1990.

However, it says consumers will start to increase savings as a proportion of income from the end of this year.

The group says its latest survey of consumer confidence, covering the three months to September shows mixed signals. "Consumers are showing increasing signs of declining confidence about the general economic situation and about inflation." However: "Their confidence about their own household's financial situation, whether it is a good time to save and, especially, about the trend in unemployment, remains buoyant."

The report says growth in equity withdrawal — the difference between mortgages advanced and investment in housing — has accompanied the recent buoyancy of house prices. That has encouraged spending on consumer goods and services.

Consumer spending forecasts, October 1988. Stanliand Hall Associates, P.O. Box 643, Alderbury House, Upton Park, Slough, SL1 2UJ. £110.

Lawson falls from an unsustainable height

Philip Stephens on the rapid change in the Chancellor's reputation

IT COULD have hardly have been a more miserable November for Mr Nigel Lawson, the Chancellor.

His Autumn Statement on the economy was eclipsed by a bitter and unnecessary row over his alleged comments to journalists on restricting government benefits for the elderly.

Two weeks later he was caught on camera by the same (now very unsympathetic) press apparently nodding off during the Queen's address at the state opening of parliament.

More seriously, inflation jumped to well over 6 per cent, and on Friday he was forced to raise interest rates for the ninth time since June in response to news of another record trade deficit.

With Conservative MPs grumbling about soaring mortgage costs and Labour convinced that the Government at last is vulnerable over its handling of the economy, the gossip at Westminster has reached fever pitch.

Mr Lawson's speech during the final day of the Queen's speech debate tomorrow has been elevated into a make-or-break test of whether he can maintain confidence in his economic strategy.

Every dot and comma in his evidence the following day to the Treasury and Civil Service Committee will be put under the political microscope.

The minister who only last July was being called "indispensable" and "unsackable" by Conservative MPs is now faced with rumours that his political future is in doubt.

Much of the speculation should be discounted.

The hothouse atmosphere of Westminster often has more in common with the cliff hangers typical of television soap operas than with the real world of government.

Political reputations are seemingly made, lost and frequently remade with the reliable regularity of the chimes of Big Ben.

Mr Kenneth Clarke, the "golden boy" appointed to rescue the Government's reputation on the health service, might happily attest to that as he struggles to win the Government some credit for adding an extra £1bn to nurses' pay.

The Chancellor's misfortunes are in part simply a reflection of the unsustainable heights to which he was elevated earlier in the year and of the notorious fickleness of some MPs and political commentators.

In the summer he was the man who had single-handedly won the last election for the Government, the magician who could keep it in office forever with a virtuous circle of tax cuts, higher public spending and a rising budget surplus.

The real world could never have been like that.

That said, even the more level-headed at Westminster agree that the Chancellor's political standing has been badly dented over the last few weeks.

The prospect that interest rates and the exchange rate will remain high for the forseeable future and that inflation will accelerate further before falling again, has unsettled MPs on the Government benches.

Nigel Lawson: under the political microscope

Most of their constituents are seeing the value of their tax cuts wiped out temporarily at least by higher mortgage costs, while their local businessmen are beginning to voice concern about their ability to compete.

Mr Lawson, who has never disguised his contempt for the wheeling and dealing or the mutual flattery needed to build a solid political base in the Commons, has hardly gone out of his way to sympathise with their understandable jitters.

His tendency to be a "loner" is also apparent in the Treasury where, though highly respected, he tends to rely on the advice of just one or two officials. That means that the Treasury machine sometimes appears less than fully behind some of his policies.

In parallel, Mr Lawson's personal authority has been dented by two unrelated events which occurred well before the latest economic misfortunes.

The first was the public row with the Prime Minister over his attempts to fix a ceiling for the pound's value against the D-Mark.

Whitehall insiders insist that those differences have been fully ironed out — both agree that the overriding priority of policy must be to ensure that the resurgence of inflation proves only to be a temporary blip. Mr Lawson and Mrs Thatcher are also said to be working closely together in the formulation of a whole range of other policies.

The problem is that perception in the media and at Westminster that Mr Lawson is outside the Prime Minister's magic circle has lingered on.

It is probably no coincidence that the newspapers traditionally regarded as being most supportive of Mrs Thatcher have been among the least sympathetic towards the Chancellor in recent weeks.

Mr Lawson's characteristic aggressiveness has not helped. His vehement — and politically careless — attacks on the press during the benefits row ensured that he became the cartoonists' favourite target.

The second weakness the Chancellor inadvertently inflicted upon himself. By announcing that he plans to leave Downing Street before the next election, he has ensured that hardly a day goes by at Westminster without one minister wondering aloud who will succeed him.

Mr Cecil Parkinson, Mr John MacGregor, Mr John Major and Mr Nicholas Ridley are the names which crop up most regularly. The expectation is that Mrs Thatcher will not want to wait much beyond next autumn before giving one of them the job.

Meanwhile, Mr Lawson has the task not only of persuading financial markets and his own back benches that he can still deliver the promised soft landing for the economy, but also of persuading them that he is not a "lame-duck" Chancellor.

None of that will be easy. Mr Gordon Brown, his Labour opponent in the Commons, has shown that he has both the intellect and the oratory to give Mr Lawson a rough ride.

So if his speech tomorrow is not the make-or-break performance that some have billed it, Mr Lawson does need to rebuild confidence among his own supporters. Despite any private doubts, the instinct of the overwhelming majority of Conservative MPs will be to rally round and only a handful are advocating any significant shift in policy.

It will then be left to developments in the economy over the next few months rather than the gossip in the corridors and bars at Westminster to deliver judgment on Mr Lawson's future political fortunes.

Reform of benefit system urged

By Charles Hodgson

RADICAL reform of the social security system, involving the doubling of personal tax allowances and the replacement of the current range of benefits with a single taxable income support payment to increase the incentive to work, is urged today by the Conservative Bow Group.

A pamphlet on the reform of the welfare state argues that the National Insurance and Social Security systems have failed to abolish poverty and have created disincentives for the unemployed to seek work.

It says future reform should divorce the system of welfare payments from tax and National Insurance contributions through a substantial increase in the thresholds for tax and other contributions.

A doubling of personal income tax allowances should be phased in, and take precedence over the Government's aim of reducing the basic income tax rate to 20 per cent and be a step towards abolition of income tax.

The current range of safety net benefits, including income support, family credits and housing benefit should be combined into a single "unified income support" payment, with eligibility rules for people those of working age tightened to exclude those not actively seeking work or training. All benefits should become taxable, the pamphlet suggests.

The measures would increase incentives to work or take up training schemes and help to eliminate poverty traps.

"The Incentive Society and the Supportive State" by Mr Peter Bassett, Bow Group, £5.

Duke warns of extinction

By John Hunt, Environment Correspondent

THE Duke of Edinburgh yesterday warned world leaders that mankind faced extinction unless action was taken to prevent the over-exploitation of natural resources.

His stark warning came as Dr Robin Russell Jones, a leading expert on the depletion of the ozone layer, called for the establishment of a special United Nations council to tackle the environmental threats facing the planet.

Dr Russell Jones believes that such a body could have powers similar to those of the UN security council.

The Duke, who is international president of the World Wide Fund for Nature, said that enough plant and animal species had already disappeared from the face of the earth for mankind to realise that "extinction is forever."

In an Advent address in St George's Chapel, Windsor, he said mankind was in danger of pushing the earth into a "winter of death" by the over-exploitation of resources.

Komatsu will buy diesels from Perkins

By Nick Garnett

KOMATSU, the Japanese construction equipment maker, announced yesterday that it is to purchase diesel engines from Perkins, the Peterborough-based diesel manufacturer.

The engines will be used initially for two excavator models produced by Komatsu at its plant at Birtley, Tyne and Wear.

The decision to take engines from Perkins, part of the Canadian Varity group is one of the most significant local sourcing moves by a Japanese company in the UK.

At the moment Komatsu supplies its own engines from Japan in the excavators and wheel loaders produced at Birtley. The plant was producing 110 vehicles a month when Komatsu UK last issued output figures in March.

The diesel engine is a major cost component in a piece of earthmoving machinery.

Komatsu, which buys an array of smaller components in Europe, has already defended itself successfully earlier this year against a charge made by European machinery makers that it was failing to meet EC rules on local components.

This month, the company became a member of the Committee for European Construction Equipment and of the British Federation for Construction Equipment Manufacturers.

The value of the yen almost certainly played a part in Komatsu's decision to source engines from Perkins. The Japanese company is also understood to have shown interest in purchasing engines from Cummins, the US engine maker, which also has a production plant in the north-east.

Komatsu, which began production at Birtley last year, gave no details of how many engines it would buy from Perkins. It said Perkins-engined models would be on the market by the middle of next year.

"The agreement with Perkins marks a milestone in our pursuit of a global network for manufacturing and sourcing and collaborative business relations on a long-term basis," Komatsu said.

Privatisation push aimed at turning Harland's tide

Kevin Brown assesses the offers and tight timetable for the sale of the state-owned Belfast shipyard

THE PRIVATISATION of Harland and Wolff, the state-owned Belfast shipyard, could take place within a few weeks, it emerged at the weekend.

Northern Ireland Office officials say negotiations with six potential buyers are sufficiently well advanced for a sale to take place "at the turn of the year."

The tight timetable will infuriate Ulster trade unionists and loyalist politicians, who have attacked the sale on industrial and political grounds. However, ministers are determined to dispose of the yard as quickly as possible, partly because of the damaging effects of uncertainty on the prospects for new orders.

They are also understood to be anxious to avoid running into the difficulties which have dogged efforts by the Department of Trade and Industry to sell British Shipbuilders, the other state-owned shipbuilder. The DTI set a deadline of several months for the privatisation of the biggest BS yard, in Sunderland, but has had to postpone a decision three times because of the political and industrial pressures which built up during the long bidding period.

Three bidders have emerged as serious potential purchasers of Harland. These are Um Denizcilik, a big Turkish shipping company headed by Mr Ugur Mengenecioglu; Bulk Transport Shipping, a London-based shipping group; and a management and employee buy-out consortium (MEBO) being set up by Mr John Parker, Harland's chairman.

John Parker: been offered advice on raising finance

Um Denizcilik is believed to have decided to diversify into shipbuilding, partly to satisfy its own future requirements. Harland is attractive because it offers sophisticated shipbuilding expertise, together with access to substantial subsidies available under European Community rules.

Bulk Transport Shipping is also understood to be planning to build ships in the yard for its own fleet. The company is itself the subject of a takeover bid, but its offer is still being negotiated.

However, the best option from the Government's point of view would undoubtedly be the MEBO, which would have the advantage of keeping ownership of the yard within Northern Ireland, and of helping to neutralise trade union and local political opposition by involving the workforce. Mr Parker has had several rounds of talks with ministers and officials, and has been offered advice on raising commercial financing for the deal.

Two earlier bids, from the British company Seaways Engineering, and the Stratford-on-Avon based Institute of Production Control, have been discarded. Seaways is said to have had innovative ideas for the yard, but lacked financial muscle and management depth. The IPC has never indicated how it would finance its bid. A sixth, unnamed company, has approached the Northern Ireland Office, but its interest is said to be tentative.

Ministers have attempted to help secure the future of the yard by insisting that bidders must have both financial strength and a guaranteed workload.

This is because Harland has only two ships in the yard – a drilling ship for British Petroleum and an auxiliary refuelling ship for the Ministry of Defence – and no further orders on its books. The oiler is not due for delivery until the end of 1990, but lack of steel cutting work will make redundancies necessary shortly if no new orders are placed.

The insistence on working out an ordering schedule with potential bidders has had the unfortunate side effect of making it impossible for the existing Harland management to accept orders in the meantime. A small dredger order, worth £8m has already been lost because of this.

However, officials say new orders at this stage could wreck the prospects of a deal by taking up shipyard space needed for other ships.

The Government's policy on orders raises difficulties for Mr Parker's proposed MEBO consortium, which is believed to have two possible options. One would be to persevere with an earlier plan to build the world's biggest cruise ship in the yard for Mr Ravi Tikkoo, the Anglo-Indian shipping entrepreneur.

However, this proposal has already collapsed once, when Mr Tikkoo pulled out of negotiations to buy the yard in exchange for a 28 per cent subsidy to help build the ship.

The Northern Ireland Office has told Mr Parker that evidence of Mr Tikkoo's capacity to finance the ship – codenamed Ultimate Dream – would have to be produced before the MEBO bid would be allowed to proceed. The chairman remains keen to build the ship because of the impact such a project could have on Harland's image. However, officials doubt that Mr Tikkoo would be able to comply.

Mr Parker's second option is to pursue a potential order for five ferries being proposed by Mr James Sherwood, the American head of the Sea Containers group, which owns the Sealink ferry company.

Officials say this option is regarded more sympathetically by the Northern Ireland Office because of the greater financial strength of Sea Containers, and the diversified risk of building five ship rather than one. However, it is not clear whether Mr Sherwood is seriously interested in ordering, or is simply testing the market.

Ministers have been angered by claims from trade unionists that Harland is being abandoned to market forces when an upturn in shipbuilding demand is just around the corner.

The ministers say the forecast improvement is not certain, and would, in any case, be concentrated on bulk ships of the type that can be built cheaply in the Far East rather than the more sophisticated products in which Harland is competitive.

The official view is that the £500m of public money poured into Harland since 1975, when the yard was nationalised to save it from closure, is sufficient evidence that everything possible has been done to keep the company in business. During that period the workforce has fallen from over 10,000 to 3,700, with hundreds of further redundancies already scheduled.

This makes Harland significantly less important as a source of Ulster employment, but has helped increase the relative cost of subsidies from £2,000 per man year in 1975 to £15,800 now. Last year, the yard absorbed £60m.

None the less, substantial temporary help would have to be made available to any new owner to make the yard saleable. This would cover future losses on the two existing contracts, help with redundancy costs, and a government guarantee of financing arrangements for earlier ships where payments are still outstanding.

Most importantly, all previous losses would be written off, giving the new owners a clean balance sheet. In effect, Harland would be given away, although there may some token payment to the Government.

Interest grows in Short Brothers as deadline nears

By Michael Donne, Aerospace Correspondent

MORE THAN a score of prospective purchasers for the government-owned Short Brothers, the Belfast-based aerospace manufacturer, have already notified their interest to the Government's financial advisers, Kleinwort Benson. The deadline is Friday December 2.

A detailed statement of the company's financial and industrial situation is being prepared, which Kleinwort Benson will make available to interested purchasers "at its discretion," that is, to those it considers serious contenders for the company.

Although not a prospectus, the document, which will not be generally published, is expected to contain enough information to enable serious bidders to decide their next moves.

Hitherto, although Short Brothers has published annual reports, they have contained only a limited amount of information about its affairs. The company has been wholly government-owned since 1943, and privatisation in the first half of next year is the aim.

The company itself, while welcoming privatisation, is anxious to ensure that it is sold as an entity, and not broken up with its three divisions – aircraft, missiles and "aerostructures" (parts for other companies' aircraft) – being sold separately.

It argues that only by remaining intact can it fulfil its role as a leading contributor to the UK's aerospace activity, because all the divisions are closely inter-related with considerable exchange of technical expertise.

The company also sees itself as an important part of industrial stability in Northern Ireland. It is the biggest single direct employer, with more than 7,600 workers, in addition to the several thousands more employed in local supplier companies.

Short Brothers sees its plans to develop a 46-50 seat twin-engined regional jet airliner, called the FJX, as vital to its long-term future, both to enable it to retain its hard-won niche in the highly competitive regional aircraft market and to sustain its research and development expertise in fixed-wing aircraft.

It accepts that the venture will be expensive, costing perhaps as much as £500m, so an internationally collaborative programme – with several partners sharing the risks and with Short Brothers having no more than 30 per cent of FJX development and production – is regarded as the most desirable approach.

The company has held discussions with a number of possible collaborators, including Messerschmitt-Bolkow-Blohm of West Germany, but no formal arrangements have been made. Short Brothers wants to see the Government making any sale conditional upon the purchaser committing itself to the venture.

SDLP chief attacks IRA

By Our Belfast Correspondent

MR JOHN HUME, leader of the nationalist Social Democratic Labour Party, has accused the IRA of dispensing death and destruction with all the hallmarks of "undiluted fascism."

Speaking at the SDLP's 18th annual conference in Belfast at the weekend, Mr Hume said Sinn Fein leaders were correct to say the "nationalist nightmare" had not ended, because they and the IRA were the major part of it.

He said "devastating" statistics showed that Republicans had killed six times as many people as the army, 30 times as many as the RUC and 250 times as many as the UDR.

Mr Hume also said Unionists had lost their exclusive hold on power through the Anglo-Irish Agreement, although the accord had not given the SDLP any special benefits.

UK NEWS

Violent football fans to be barred from travelling

By Charles Hodgson

FOOTBALL supporters convicted of hooliganism offences will be prevented from travelling abroad to watch English clubs or the England international team as part of new government legislation designed to stamp out soccer violence.

Mr Colin Moynihan, the Sports Minister, said yesterday that the Government would include the travel ban in its bill introducing a compulsory national membership scheme for football supporters, due to be published within two weeks.

Under the scheme, all those attending football matches will be required to hold computer-coded membership cards, which will be withdrawn from anyone convicted of causing violence. It is understood that those convicted of soccer-related hooliganism may also be required to register at attendance centres during periods when English teams are playing abroad.

The scheme, similar to the parole system, is understood to have been approved by Mr Douglas Hurd, the Home Secretary. A suggestion that the passports of convicted offenders should be endorsed to prevent travel to matches abroad has been ruled out as impractical and because of the civil liberties implications it raises.

Mr Moynihan said the Government was as determined to combat football hooliganism by English supporters abroad as it was to curb violence at home. Mrs Margaret Thatcher, the Prime Minister, was convinced of the need for a membership scheme partly by violent scenes involving English fans during the European Championships in West Germany in June.

Speaking on BBC television's On the Record programme, Mr Moynihan defended his much-criticised plan to introduce a compulsory membership scheme, claiming that it would wipe out violence inside football grounds.

He rejected criticism from the Police Federation and the football authorities that the computerised identity card system would cause hold-ups, aggravation and potential safety hazards at the turnstiles, arguing that the technology being considered would ensure speedy access to grounds.

Mr Moynihan also indicated that the identity card requirements might be eased on parents with children watching matches from "family enclosures." The football authorities have long argued that a membership scheme would deter casual supporters.

The membership scheme bill, expected to be introduced in parliament in mid-December, will face stiff opposition, not only from Labour, which regards it both as unworkable and as an infringement of civil liberties, but also from backbench Conservative MPs who have yet to be convinced that it will prove an effective solution to soccer violence.

Reform groups oppose private remand prisons

By Alan Pike, Social Affairs Correspondent

PENAL reform organisations today declare united opposition to government proposals for the private management of remand prisons.

A green paper on private sector involvement in the remand system was published by the Home Office in the summer, and it is likely that Britain will have its first privately-run remand centres in the next two or three years.

Ministers say they do not see any overriding issues of principle to rule out private-sector involvement. However, the responses of three penal reform organisations to the green paper make clear that they do not share this view.

The Prison Reform Trust says the principle that the state should have direct responsibility for prisoners "has been accepted in every civilised country for over a century." Servants of the state and not profit-making agencies should exercise the custody of prisoners.

While declaring itself "wholly opposed to privately-managed remand centres" the trust stresses that it is not equally opposed in principle to other forms of private sector involvement in the prison system. The privatisation of activities such as catering, works departments and prison industries might result in improved cost-effectiveness and facilities.

The Howard League for Penal Reform says commercial interests would press for more and more prisons. The introduction of privately-run remand centres would be a "bizarre leap in the dark" on the basis of mostly anecdotal evidence from the US, where fewer than 0.3 per cent of prisoners were housed in institutions contracted to private companies.

The National Association for the Care and Resettlement of Offenders shares the view that private contractors would build up "a potentially powerful commercial lobby with a vested interest in the continuing expansion of our already over-large prison system."

Comments on the Green Paper 'Private Sector Involvement in the Remand System,' Prison Reform Trust, 59 Caledonian Road, London N1 9BU. £1.

Prisons Are A Public Trust, Howard League, 322 Kennington Park Road, London SE11 4PP. £2.

Quilter tries to patch together its broken strategy

Richard Waters continues the series about the impact of Big Bang on securities houses

THAT a provincial stockbroker is running what was until recently one of the City of London's best-known family firms is just one of the many ironies to emerge from the turmoil of Big Bang and, more recently, the stock market crash.

Mr Glyn Roberts became managing director of Quilter Goodison, the family firm of former Stock Exchange chairman Sir Nicholas Goodison, earlier this autumn when it was taken over by Commercial Union. His own stockbroking firm, Liverpool-based Ashton Todd, had been acquired by the insurance giant two-and-a-half years before.

There have been other, equally significant changes at Quilter's Gresham Street headquarters.

A succession of different people have graced its boardroom in the past five years. Traditional, pinstripe-wearing City gents have been joined in turn by Swedish insurance executives, French bankers and, most recently, British insurers.

Quilter's progress reads like a parable of what has befallen large parts of the City in the years before and after Big Bang.

It started as a smallish but dynamic broking firm with a strong base of private clients. It has ended up being dismembered, though its name lives on under Commercial Union's umbrella.

Sir Nicholas: championed wider share ownership

In retrospect, it is possible to identify two key decisions made by Quilter's managers which led to its present state. Both were fashionable at the time they were made, but was either right, or even necessary?

The first was that it needed to tie up with a larger parent. Early in 1984 Quilter sold 29.9 per cent of its shares to Skandia, Scandinavia's largest insurance group. Sir Nicholas, Quilter's chairman at the time, said that would give the firm the capital it needed to expand.

However, that was not the last word. Nearly two years later it swapped Skandia for Paribas, the French bank, which wanted to acquire 100 per cent of Quilter. Skandia was restricted by Swedish law from increasing its stake above 29.9 per cent, ruling it out as a fully-fledged parent.

Could Quilter have made it alone, or did it need those tie-ups? The move to Paribas was made at a time when other brokers were being bought by banks, raising the fear that being only partially-owned would leave Quilter in a weak position compared with competitors.

Capital, it is true, was needed in the run-up to Big Bang to develop expensive computer systems. There was also the apparent attraction of having cash to develop the business faster than it could be developed alone.

It remains debatable whether either of those reasons would have been strong enough to force such a move had Quilter really wanted to stay independent.

The decision to link with Paribas was crucial. Within a year the French bank had integrated the broker's institutional and international businesses, representing about half of its income, with its own capital markets division.

The other half, comprising services to private clients, was left intact under the Quilter Goodison label.

Paribas's strategy in the UK did not include retail financial services: it seems that it was only a matter of time before it dispensed with that part of its acquisition.

The second important decision made by Quilter was to champion wider share ownership.

That was perhaps inevitable given that its chairman, as Stock Exchange chairman, was obliged to promote stockbroking services for the investors created by the Government's privatisation programme.

Quilter had had a strong private client business for some time. At the start of this decade it probably had the largest private client department of any City broker, with 16 partners serving those clients compared with the six or so at rivals like Hoare Govett and Grieveson Grant. By 1982 it had about 15,000 private clients.

Its institutional business, on the other hand, was ranked only about 20th, with a 2 per cent share of the market.

Quilter threw itself wholeheartedly into expanding its private client base. Its intention, according to one former executive, was to act as a broker to clients of all sizes, from large institutions to Sid.

The culmination of that thrust was the opening, amid much razzamatazz, of its Money Centre, Britain's first "share shop," in Debenhams store in Oxford Street three years ago. It was planned as the first of a wave of share shops that would sweep Britain's high streets.

The retail idea never made it. Early in 1987 Quilter parted company with Burton, Debenhams' parent. A subsequent attempt at a share shop in rival store Selfridges died quietly when the stock market crashed later in the year.

During that period, Quilter had been taking a voluble stance in favour of various privatisations, bringing it further business from the new share-owning group.

That was to prove a rod for its own back. As the stock market took off in 1987 it became painfully clear that few brokers had the administrative resources to keep up with the soaring volume of business.

As their systems became clogged with paperwork, firms increasingly found themselves forced to finance clients' purchases until they could deliver the relevant shares.

Quilter, with its new small shareholders and high proportion of European equity business, which presented more of an administrative burden than UK business, suffered more than most.

"It was a simple case of overtrading," says a former executive. The only consolation was that it was not alone in making that mistake.

Will Quilter's future with Commercial Union be any more settled? The insurer is taking a long-term view and believes it is possible to make a decent return from serving relatively wealthy individuals, says Mr Roberts.

His focus: private clients with £100,000 or more to invest. There will be little or no cross-selling to Commercial Union's own clients, he says. Quilter will be run independently and have its own client base.

There is some way to go before the profits start rolling in. The broker has made losses for two years and earlier this year laid off a number of staff. Since taking control, Mr Roberts has dispensed with the services of a further 50, bringing the total staff down to 150.

Quilter is still not making money. There are few reductions in overheads still to be made: Mr Roberts says the firm will remain in central London.

It will probably take a substantial increase in volumes, depressed since last October, before Quilter can put away the red ink.

Previous articles in this series: Shearson, Tuesday, November 8; Lloyds Bank, Monday, November 14; BZW, Monday, November 21.

UK NEWS

Financial paradoxes of a satellite TV station

Alan Friedman and Nikki Tait on Super Channel

LAST WEEK five members of the Marcucci family, the Italian entrepreneurs from Tuscany who control 55 per cent of Super Channel, the loss-making general entertainment satellite channel, were dining at a stylish restaurant in London's Beauchamp Place.

Ms Marialina Marcucci, the 34-year-old director of Super Channel who has spent many hours in heated financial negotiations with Mr Richard Branson, head of Virgin Group, which owns 45 per cent of the station, was in a distinctly cheerful mood.

What was curious about the joviality of the Marcucci dinner was that it took place only a few hours after Lord Justice John Vinelott of the High Court had ordered the appointment of two Touche Ross partners to administer Super Channel as a going concern under the terms of the Insolvency Act of 1985.

So why were the Marcuccis, who are devoting their time and financial resources to turning around Super Channel, so happy?

The answer is that the High Court order came at the request of the Marcuccis themselves. *The Marcuccis* bought control of Super Channel earlier this month from the 14 ITV companies which set up the station 22 months ago in partnership with Virgin. Marialina Marcucci decided to seek the *court order when she discovered* that Super Channel's debts total £11m and its contingent liabilities added up to a further £8m, most of these debts owed to Virgin.

This leaves Mr Branson in the *financially schizophrenic* position of being both a large creditor and shareholder of Super Channel.

The court move may seem serious, but it is designed specifically to give Super Channel its best chances of surviving as a satellite television venture. As Mr Nigel Atkinson, one of the Touche Ross partners, explained: "We are going to put a ringed fence around the company to protect it from creditors." (Mr Atkinson will meet creditors next month with a proposal for a reduced debt settlement.)

The Marcuccis, meanwhile, who have considerable experience in the business as they have already built up Beta Television, a successful video music channel in Italy, say they are going to use the next two months to try and restructure Super Channel's programming and attract more advertisers and sponsors so as to capitalise on the audience of 14m homes in 15 European countries which receive the station's broadcasts. As a guarantee of their goodwill to the court the *Marcuccis* have pledged £2m to cover Super Channel's trading losses, which are running at about £750,000 a month, and a guaranteed £2½m for creditors.

Such an arrangement would not have been possible three years ago, before the 1985 Insolvency Act came into force. While the act in many ways toughened Britain's insolvency legislation – in particular, making for disqualification of directors found unfit to manage – it also introduced the "administration order" procedure.

Marialina Marcucci: heated negotiations

Pierluigi Stefani: threat to dilute Virgin stake

This was widely billed as Britain's equivalent to "Chapter 11" filings in the US, which gives ailing American companies considerable protection from their creditors while they attempt to sort out their affairs.

There is, however, a key difference between the US and the UK models. Under Chapter 11 filings, management continues to run the company in question; in Britain, an administrator is appointed as an independent external trustee.

Mr Branson is in the position of being both a creditor and shareholder in Super Channel

In the case of Super Channel, for example, the running of the business while the debt position is sorted out has been placed in the hands of the *Touche Ross duo.*

At the time the act was introduced, some practitioners were doubtful about the extent to which administration orders would be employed – the suggestion being that banks would call in receivers more quickly in order to safeguard their loans. In fact, use of the orders has been far from insignificant. Between April and December 1987, Dun & Bradstreet calculates that there were about 125 orders made in England and Wales, and in the current year to end-October, about 175.

Under the administration procedure, the court will appoint an administrator if this is likely to lead to the survival of the company, or part of its business; "a composition in satisfaction" of the company's debts; or a more advantageous realisation of assets than a straight liquidation. Once the order is granted, the administrator sets about producing a "statement of proposals", which are then put before creditors.

If they accept, fine; if they do not, liquidation may loom. *During the administration,* creditors cannot press their claims, enforce security over the company's property and so on.

In Super Channel's case, the order was granted for two purposes: the survival of the company and the possibility of a voluntary arrangement with the creditors. The precise shape which these proposals to creditors – there are less than a dozen significant ones – will take, and the scale of funds which might be injected by the company's owners, are now being worked on, with the aim of calling the creditors meeting in mid-December.

If the plan succeeds, says Mr Atkinson, Super Channel will be returned to the Marcuccis' direct management early in the new year. (The £2m funding already provided by Beta is estimated to cover the trading position until about mid-February, if necessary.) The most difficult hurdle for both the Touche Ross administrators and the Marcuccis, however, is Mr Branson's Virgin Group.

Nearly £6m of Super Channel debts are owed to West One and Music Box, which are respectively a production house and music programme supplier controlled by Virgin.

The Marcuccis dispute the amount of money owed by Super Channel to Virgin, have already broken their contract with West One, and have also said they wish to go ahead with an eventual £10m recapitalisation of the station in spite of a reluctance by Virgin so far to stump up fresh cash.

Mr Pierluigi Stefani, a senior executive of Beta Television (Marialina Marcucci's husband) has said that "if Virgin does not subscribe their portion of an increase in share capital the Virgin stake will be automatically diluted."

Mr Branson himself, asked what he plans to do, said earlier this week that he was optimistic a compromise could be reached. Speaking as a shareholder of Super Channel, he said he admired Marialina Marcucci and described the court-ordered administration as "a sensible move."

However, speaking as a creditor of Super Channel Mr Branson said: "We are one of the parties owed money and we will fight from our corner." Is this not a curious position for Virgin? "It's completely paradoxical," remarked Mr Branson, "but that's the situation I find myself in."

Ms Marcucci, when asked about the Virgin Group's "paradox", *merely smiled and said* she admired Mr Branson. With this curious mixture of mutual admiration and friendly financial conflict inside Super Channel, it is perhaps not hard to see why the station's best chances for survival lie in the nuts-and-bolts work of a couple of hard-nosed accountants from Touche Ross.

BR sell-off options criticised by report

By Kevin Brown, Transport Correspondent

BRITISH Rail's Freight and Network SouthEast divisions should be sold as separate businesses when the corporation is privatised, according to a report published today by the Centre for Policy Studies.

The report, Signals from a Railway Conference, was written by Mr John Redwood, a former head of the Downing Street Policy Unit and now Conservative MP for Wokingham.

Drawing on contributions to a CPS conference on the future of BR, Mr Redwood says there are serious objections to the four options for privatisation which have been put forward by Mr Paul Channon, Transport Secretary.

The options are: privatisation as a single unit, known as the BR PLC option; creation of a number of regional companies; a track authority which would lease space to competing operating companies; sale of BR's five divisions - InterCity, Freight, Parcels, Network SouthEast and Provincial.

Mr Redwood says a fifth option would be to produce a hybrid scheme under which some parts of the railway system would be sold in their existing form while others would be integrated on a regional basis.

The report says one of the most promising permutations would be to sell the Freight division as a separate national business running over other companies' track.

Network SouthEast, which runs most London commuter services and some long-distance trains to the south and south-west, is "an obvious area" to be sold as an integrated railway with its own track and trains.

Mr Redwood says there is scope for experimentation outside the south-east, where Provincial and InterCity services could be run by regional companies which would charge for the use of their tracks by other operators.

Alternatively, InterCity could be established as a separate national business along the lines of the Freight division.

Mr Redwood says the regional companies would have to retain some of BR's extensive property assets, which offer an obvious way to finance the railways in the future.

● A total of 80,000 people have signed 28 separate petitions calling for the retention of the Settle to Carlisle line, which is threatened with closure, as an integral part of the national rail network. The petitions will be presented to parliament by MPs this week.

The Government is seeking a private sector buyer for the scenic line, which BR says requires extensive repairs which cannot be justified by demand.

Signals from a Railway Conference; £3.50, from Centre for Policy Studies, 8 Wilfred St, London SW1 E6PL.

EMPLOYMENT

TUC angered by drive against closed shop

By Our Labour Staff

THE TUC reacted angrily to the announcement at the weekend that the Government is considering a fresh bout of employment legislation in its drive to end the closed shop.

Mr Norman Fowler, the Employment Secretary, said the Government planned to introduce legislation on the closed shop next autumn. He was speaking to the annual conference of Conservative Trade Unionists.

Department of Employment officials have launched a review into why 500,000 people are in pre-entry closed shops which compel workers to have a union card before they can obtain a job.

Yesterday Mr John Monks, TUC deputy general secretary, said the proposed bill, coming in the wake of the recent code of practice on industrial-action ballots, was another move by the Government to handicap unions and favour employers.

He said the number of workers covered by a pre-entry closed shop had fallen in recent years but the closed shop was important in maintaining employment standards and job security.

He said: "Mr Fowler should justify his existence by tackling real problems like unemployment and skill shortages, rather than concentrate on imaginary ones."

Recent law empowers employers to end closed shops but many have chosen not to do do.

Mr Fowler indicated that any new legislation would be aimed at giving rights to individuals rather than to employers.

Options under consideration include a right of appeal to an industrial tribunal for anyone who believes they have not been given a job through lack of a union card. Aggrieved individuals may then be able to claim damages.

Mr Fowler said the departmental review would examine whether the closed shop's extent was a barrier to employment.

The move comes after the publication of research by industrial relations academics from the London School of Economics which found employment growth much lower in unionised companies.

Mr Fowler has cited the research in recent weeks and senior officials at the department have met the researchers to explore the study's implications.

Unaffiliated unions may get public role

By Michael Smith, in Southport

THE GOVERNMENT is considering ways to give to small, non TUC-affiliated unions a role in running a range of publicly-appointed bodies such as industrial tribunals.

Its review follows abolition in September of the tripartite Training Commission, the most important body to which the TUC nominated representatives, and expulsion from the TUC of EETPU, the electricians' union.

The TUC names union representatives on most public bodies, including industrial tribunals, the Health and Safety Commission and European Community advisory bodies.

This means unaffiliated unions are denied representation. These include the Federation of Managerial and Professional Officers (FUMPO), the Professional Association of Teachers and the Institute of Journalists.

Mr Normal Fowler, the Employment Secretary, told the annual conference of Conservative Trade Unionists his department was seeking views from all unions on union appointments to public bodies. He said: "Watch this space. I hope you will not be disappointed."

Earlier Mr Keith Brown of FUMPO said his union had sought representation on a wide variety of bodies but had been told by the Government to obtain nomination through the TUC.

He said: "The Government advised us that there was no other machinery available. *That has got to change.*"

● Former officials of the 19,000-strong Prison Officers Association have formed a breakaway union, the Public Services Union. Relations between the Home Office and the POA have become increasingly tense over introduction of revised working practices.

● About 90,000 people were training in the Government's Employment Training scheme for adults, Mr Fowler told the conference.

Only six bodies, all Labour-controlled local authorities, had quit the scheme; 50 councils remained as training agents and 170 as training managers.

MANAGEMENT

A slimmer with an appetite for expansion

Mathew Horsman assesses Canadian Pacific's refocused strategy

Many people would consider that Harvey Romoff, newly-appointed vice-president of Canadian Pacific's European operations, has an unenviable job.

The Montreal-born Romoff, who has been with CP for 30 years, inherits a much diminished empire. As he slipped into a position created with him in mind in September, his company moved to abandon its hotels in West Germany, sell 30 ships, and consolidate administrative operations in a single building in London.

But to say that 52-year-old Romoff is merely a caretaker is to underestimate both CP's determination to expand beyond North America's borders and Romoff's own methodical approach to the job.

The rail, hotel, and resources company earned C$686.7m (£288m) in 1987, on turnover of $12.2bn, making it the second-largest Canadian-owned company (by sales) after telecommunications giant Bell Canada Enterprises Inc. In 1985, following the lean years of the recession, the company embarked on a massive restructuring programme, which included unloading CP Air (now Canadian Airlines International), selling stakes in Cominco and Algoma Steel and buying a controlling block in Laidlaw Transportation, a school bus and waste disposal company.

Slimmer, healthier, and with close to C$1bn cash on hand, CP is poised for a round of vigorous expansion. At least some of the focus will be on renewing CP's connection with Europe, particularly the UK.

"We've always had close links with this country," says Romoff. He points to CP's long involvement in London-based shipping, and recalls that the rail company was a favourite among British investors.

Indeed, one of Romoff's goals is to boost the proportion of UK shareholders from the current 10 per cent or so, which is down from about 30 per cent in the 1960s.

Romoff is well-suited to the job of increasing CP's European presence, colleagues say. For a start, he is an acknowledged expert on transportation, particularly shipping.

Ironically, though, for an executive with a mandate to expand, Romoff won his spurs in Europe by overseeing CP's gradual retreat from all but a few shipping niches.

He joined CP as an economist in 1960, following studies at McGill University in Montreal and the Massachusetts Institute of Technology. Romoff was soon involved in trouble-shooting – taking a hard look at those CP ventures that were not up to scratch. He later led a task force on the container business, centred on CP's British operations.

In 1986, after a period masterminding the container division of Canadian Pacific Steamships, he was appointed chairman and chief executive officer of Canadian Pacific Ships, London. This company controls CP's North Atlantic shipping interests and has a 57 per cent interest in Canada Maritime in partnership with Compagnie Maritime Belge.

Romoff's arrival in London coincided with a painful restructuring of the transatlantic shipping industry; players unwilling to invest for the long term gradually retreated in the face of intense competition and lower earnings. CP's head office decided it was not prepared to fight it out with specialist shipping companies.

By 1988, CP had agreed to leave Europe/US container routes to the Hong Kong-based Tung Group, owners of UK shipping company Furness Withy, to concentrate instead on shipments in and out of Montreal.

In line with its retreat, CP abandoned direct ship management in early 1988, and most of the company's shipping interests devolved to Canada Maritime, the Canado-Belgian joint venture. Currently, Romoff is negotiating to sell the last of 30 ships earmarked for disposal. The company will be left with a fleet of specialty tankers.

Harvey Romoff: European assets thinned considerably

With European assets thinned considerably, CP is ready to build again, this time in line with the company's refocused corporate strategy.

The restructuring in Canada left CP with five core areas: transportation (including waste disposal), energy, forest products, property and hotels, and manufacturing. Romoff intends to confine his European push to these sectors.

"It would be terribly foolish to invest in a new industry and a new country at the same time," he explains. In his search, Romoff is encouraged by the trend towards privatisation and liberalisation within the European Community, as epitomised by EC promises to remove internal barriers to trade at the end of 1992. He is particularly attracted by the planned privatisation of key European rail freight operations, notably in Britain.

There are some no-go areas. Sensitivity about foreign ownership of forest products operations in Europe, particularly in France, will mean CP isn't likely to extend its already considerable pulp and paper interests beyond domestic borders.

European oil and gas exploration, similarly, is an unlikely target. CP recently sold its North Sea interests. Asks Romoff: "With a substantial energy land base in Canada, do we want to be in Europe chasing with BP and Shell? The answer is perhaps not."

Property development in Europe is unappetising, and for the same reasons. CP, through property subsidiary Marathon Realty, has extensive Canadian real estate, particularly its railway land in major cities. Many of these holdings are now earmarked for development. CP is not interested in buying land at commercial rates in a new market such as Europe.

As a result, CP is selling its City office building in Finsbury Square, even though analysts believe the company could make good money from being a landlord.

That leaves a handful of core businesses:

● Manufacturing. AMCA International, CP's speciality steel affiliate, already has a presence in Germany, via control of a forklift manufacturer. Expansion there and elsewhere in Europe may follow.

● Hotels. CP has proved itself keen on this sector, having bought CN Hotels from government-owned Canadian National Railways earlier this year. Romoff says he is looking at small chains of hotels on the Continent. The four West German hotel leases that CP has earmarked for disposal were "just bad deals," Romoff says, adding that the properties would have cost too much to refurbish.

● Waste Disposal. Through its 47 per cent stake in Laidlaw Transportation, one of North America's biggest waste management companies, CP is eager to penetrate Europe's highly fragmented market.

"Waste disposal isn't just a problem in North America," Romoff says. He believes that waste techniques developed in North America can be easily transferred to Europe.

Business courses

Managing business information systems, Bedford, October 23-28. Fee: £850. Details from Programme Administrator, Managing Business Information Systems, Cranfield School of Management, Cranfield, Bedford. Tel: 0234 751122 Telex: 826559.

Winning strategies for the 1990s, Amsterdam, October 17-20. Fee: $450. Details from Bernie Brilman PCO, Parkweg 12, 2271 AJ Voorburg, The Netherlands. Tel: 31 70 863650. Fax: 31 70 863372. Telex: 34004 vitex (start telex with vidital 400035039).

Buying and selling of private companies, London, October 10-11. Fee: £450 plus VAT. Details from Nicky Roberts, Legal Studies & Services, Bath House, 56 Holborn Viaduct, London EC1A 2EX. Tel: 01 236 4080. Telex: 888870.

Management of people, London, November 7-9. Fee: £945 plus VAT. Details from The Cleaver Company, 63 Chiswick High Road, London W4 2LT. Tel: 01 994 1742. Fax: 01-995 5821.

Innovative teamwork, Hemel Hempstead, November 16-18. Fee: £445 plus VAT. Details from Synectics, Fernville House, Midland Road, Hemel Hempstead, Hertfordshire HP2 5BH. Tel: 0442 47152. Fax: 0442 50419 Telex: 825098.

Logistics and supply chain management, Brussels, October 17-18. Fee: non-members BFr 75,000; members (AMA/I) BFr 67500. Details from The Customer Service Department, Management Centre Europe, Postbus 95, NL-3417 ZH Montfoort, The Netherlands. Tel: 32/2/516.19.11 Telex: 21917 mce b Fax: 32/2/513.71.08.

European financial controllers' conference, Paris, November 23-25. Fee: non-members BFr 76,000; members (AMA/I) BFr 68,400. Details from The Customer Service Department, Management Centre Europe, Postbus 95, NL-3417 ZH Montfoort, The Netherlands. Tel: 32/2/516.19.11 Telex: 21917 mce b Fax: 32/2/513.71.08.

Strategic decisions, Northants, November 20-25. Fee: £1450 plus VAT. Details from Joy Square, Registrar, Ashridge Management College, Berkhamsted, Hertfordshire, HP4 1NS. Tel: 044 284 3491.

Telecommunications partnerships

Seeking a connection

Alan Friedman on the dilemma facing Italy's STET group

Giuliano Graziosi likes to point out that "Europe has nine different public switching systems, has made double the investment of North America and has results that are inferior."

Graziosi, who manages the STET group, Italy's state-owned telecommunications and electronics concern, should know about the value of investments, of conflicting systems and of inefficiencies. Italtel, the leading telecommunications equipment maker that is controlled by STET, is seeking to nurture new technologies and spend more on research and development.

Italtel needs a larger dimension if it is ever to be more than a minnow in the increasingly competitive global market. And Graziosi, together with other executives at the Italian state telecoms group, has been searching for more than two years now for a partner that would give Italtel the leg-up it requires on the European and international market.

The challenge faced by Graziosi and his colleagues is formidable because the restructuring of the Italian telecoms market involves technical, industrial, financial, political and management issues which would confound business executives anywhere.

And given the continuing shake-up in the European sector – including, for example, the current joint Siemens/GEC bid for Plessey – the need to act within a reasonable time frame is pressing.

The current highly publicised and highly politicised debate in Italy revolves around the selection of a partner for Italtel from among four foreign suitors – American Telephone and Telegraph (AT&T), Siemens of West Germany, Ericsson of Sweden and Alcatel of France.

In Italy this industrial issue is often treated by the local press like a soap opera, with a cast of managers and politicians whose views are constantly being solicited.

One reason for this high profile debate is that the current search for a foreign corporate partner stems from the collapse last November of a joint venture project between Italtel and Fiat's Telettra subsidiary,

Salvatore Randi: inherited a turnround at Italtel

a planned merger which at the time stirred more acrimony than most such Italian affairs.

Another reason is that the decision needs to be filtered through a Comintern of managers and politicians including not only Graziosi, but Salvatore Randi, the recently appointed managing director of Italtel, Professor Romano Prodi, the chairman of the IRI state holding group that controls STET and Italtel, Carlo Fracanzani, the minister for state industry, and eventually the five-party coalition government of Prime Minister Ciriaco De Mita.

Several hands are thus stirring the pot and the preliminary technical, financial and industrial appraisals made at the Italtel-STET-IRI levels will undoubtedly become the subject of a political level discussion.

The respected 58-year-old Randi has just taken over the running of Italtel, succeeding Marisa Bellisario, the acclaimed manager who died suddenly last August after having engineered a textbook turnround at the Milan-based company.

Italtel made a L121bn (£52m) net profit last year on L1,400bn of sales, and the company has developed a successful public switching product – the Linea UT system.

But Italtel is heavily dependent upon sales to SIP, the state telephone utility that is also part of STET, and clearly requires access to foreign markets and new technologies if it is to move forward.

For the would-be foreign suitors, Italtel offers access to a lucrative L37,000bn five-year telecoms modernisation programme at SIP. Quite a lot is at stake, therefore, both for the Italians who see an accord with a foreign partner as part of their definitive national telecoms strategy, and for the foreign companies, eager to expand their market share.

In Rome political circles it is said that some of the foreign suitors have been mounting heavy-handed lobbying campaigns. The case for Siemens is believed to have come up in bilateral government conversations, as has the plea for Alcatel. The late Marisa Bellisario is said to have favoured a deal with AT&T.

Alcatel, Ericsson and Siemens each has a presence in Italy already, with local telecoms equipment subsidiaries. And each of the four companies offers something different – Alcatel has a strong market presence in Europe, Ericsson a strong tradition in switching and Siemens already controls what used to be GTE's Italian operation and even manufactures the Linea UT under licence from Italtel.

AT&T, according to state industry officials, offers the excitement of the North American market and the prospect of advanced technology resources.

A decision on the matter was due last July, but Bellisario's untimely death has delayed the entire process and Randi, aware of the strategic significance of his recommendation, is now conducting a fresh review of the four options. According to officials in Italian state industry, a final decision is now unlikely before early in the New Year.

What is emerging, however, is a preference among the various managers for two of the four suitors: AT&T and Siemens. And it is possible that these two companies will be placed on a new short-list and asked to come up with revised and competing offers in January.

At present, Italtel's best bet in foreign markets is to sell its Linea UT system to developing countries that are working on their communications infrastructures. But the big money is still in the US and European telecoms markets. A partnership for Italtel is thus a *sine qua non* for future prosperity.

CONTRACTS & TENDERS

AVIS D'APPEL D'OFFRES
REPUBLIQUE DU ZAIRE — DEPARTMENT DU COMMERCE EXTERIEUR — SOCIETE NATIONALE DE TRADING "SONATRAD"

APPEL D'OFFRES INTERNATIONAL N° DC0/DCA/T.057/88
POUR LA FOURNITURE DE 11 MICRO ORDINATEURS

1. OBJET
La société Nationale de Trading "SONATRAD" met en adjudication publique la fourniture du matériel de bureau pour le compte de l'ONATRA.
Ce dernier a obtenu de la Banque Mondiale un crédit en vue de financer son projet de modernisation.
Les sommes accordées au titre de ce crédit seront utilisées notamment pour effectuer les paiements autorisés dans le cadre du marché pour lequel le présent appel d'offres est lancé.

2. DESCRIPTION DES FOURNITURES
Le présent appel d'offres porte sur la fourniture d'équipements répartis en un lot unique :
- 11 MICRO ORDINATEURS

3. INDIVISIBILITE DU LOT
Le lot est indivisible. Tout candidat est tenu de soumissionner pour l'ensemble du lot. La SONATRAD sélectionnera l'offre la plus avantageuse pour le lot.

4. RETRAIT DU DOSSIER D'APPEL D'OFFRES
Le dossier complet d'appel d'offres peut être obtenu contre remise d'un chèque barré d'un montant de 125.000 Zaïres ou 25.000 Francs Belges, à partir du 26.10.1988 aux adresses suivantes :
1. SOCIETE NATIONALE DE TRADING "SONATRAD"
BUILDING C.C.I.Z. - 226 NIVEAU
B.P. 15.711 - KINSHASA /I
TELEPHONE : 30.592 - 30.598 - 32.304
TELEX : 21634
TELEFAX : 30.592
REPUBLIQUE DU ZAIRE
2. SOCIETE NATIONALE DE TRADING "SONATRAD"
AGENCE DE BRUXELLES
15, RUE DE LA LOI, BOITE 052
B-1040 BRUXELLES
TELEPHONE : 230.37.97
TELEX: 26444
TELEFAX : 230.47.61
BELGIQUE
3. SOCIETE NATIONALE DE TRADING "SONATRAD"
AGENCE DE LUBUMBASHI
225, AVENUE MSIRI
B.P. 1573 - LUBUMBASHI
TELEPHONE : 22 53 71 - 22 52 49
REPUBLIQUE DU ZAIRE

5. PARTICIPATION
La participation à la concurrence est ouverte à égalité de conditions à tout fournisseur ressortissant des pays membres de la Banque Mondiale, de la Suisse, et de Taiwan, Chine.

6. REMISE ET OUVERTURE DES OFFRES
Les offres seront remises sous double enveloppe cachetée, par envoi postal recommandé ou par porteur contre accusé de réception à :
SOCIETE NATIONALE DE TRADING "SONATRAD"
BUILDING C.C.I.Z. - 226 NIVEAU
B.P. 15.711 - KINSHASA/I
TELEPHONE : 30.592 - 30.598 - 32.304
TELEX : 21634
REPUBLIQUE DU ZAIRE

avant le 26.12.1988 à 10 heures locales, date et heure auxquelles il sera procédé à l'ouverture des offres en la salle de réunion du 22è niveau Building C.C.I.Z.
Conformément au point II.17 du dossier d'appel d'offres, le soumissionnaire présentera obligatoirement son offre de la manière ci-après :
- l'offre complète (partie technique et commerciale) en 2 exemplaires dont l'original et 1 copie.
- une partie de l'offre exclusivement technique et sans indication de prix en 1 seul exemplaire.

LA SOCIETE NATIONALE DE TRADING "SONATRAD"

Announcement from EREGLI IRON AND STEEL WORKS CO. (ERDEMIR)/ TURKEY

1- Approximately 1200 metric tons of low carbon ferromanganese and 8000 metric tons of high carbon ferromanganese (in two equal lots) to be imported for our works 1989 requirement.

2- Tender documents for these inquiries may be obtained as of 30th November 1988 from our following offices;

a) Ereğli Demir ve Çelik Fabrikalari T.A.Ş.
Satinalma Genel Müdür Yardimciliği
Diş Alimler Müdürlüğü (Foreign Purchases) Uzunkum Cad.
Kdz. EREGLI/TURKEY

b) Ereğlij Demir ve Çelik Fabrikalari T.A.Ş.
Satinalma Genel Müdür Yardimciliği
Satinalma Müdürlüğü
Cümüşuyu Cad.Dersan Han.Ket.4
Istanbul/TURKEY

c) Ereğli Demir ve Çelik Fabrikalari T.A.Ş.
Satinalma Genel Müdür Yardimciliği
Diş Alimlar Müdürlüğü
Diş Alim Sipariş Takip Şefliği
Atetürk Bulvari, Selcan Han No. 127/5
Ankara/TURKEY

3- The offers in sealed evelopes should be submitted to Ereğli Demir ve Çelik Fabrikalari T.A.Ş. Satinalma Genel Müdür Yardimciliği, Uzunkum Cad. Kdz. Ereğli / TURKEY at the latest by 12.00 hours Turkish local time on 16th January 1989.

4- Our company reserves the right to place the order(s) either partially or completely with any bidder to cancel the tender(s) completely. The receipt of quotations shall in no way be binding upon our company.

WEST YORKSHIRE PASSENGER TRANSPORT EXECUTIVE

Bradford Trolleybus Project

West Yorkshire PTE is to implement the first stage of its Bradford Trolleybus Project, which will electrify the route between Bradford (Forster Square) and Buttershaw Estate, totalling 10km in route length. This may eventually form part of a larger system.

The overhead line system will operate at a nominal 750 Volts dc and will incorporate the latest proven technology, featuring a lightweight flexible high-speed design using synthetic span construction. Power supplies will be converted at a number of centrally-controlled silicon rectifier substations along the route, deriving power from local Area Board 11 kV networks.

The Trolley Vehicles may be either single or double deck options, and will feature electronic control gear and traction drives. Braking will combine regenerative-rheostatic dynamic brakes blended with air brakes. A diesel generator on each vehicle will provide off-wire traction capability at reduced performance for emergency and depot manoeuvring purposes. Approximately 12 Trolley Vehicles will be required for this stage of the project.

A single contract for the detailed design, manufacture, supply and installation of the fixed equipment and vehicles will be awarded in the second half of 1989 by Metro, which will be acting on behalf of the operator(s).

An information package will be issued in December, 1988 to those bona fide companies or consortia responding to this advert, with a request for the submission of statements of capability by the end of January, 1989. These statements will be used to select up to 4 companies who will be invited to submit Tenders for the proposed contract.

Companies wishing to be considered as Tenderers for this Contract are invited to apply in writing, by 16th December, 1988 for an information Package to:
Secretary and Solicitor,
West Yorkshire PTE,
Metro House, West Parade,
WAKEFIELD, WF1 1NS.

METRO

Metro is a Public Body financed and controlled by the West Yorkshire Passenger Transport Authority.

COMPANY NOTICES

EUROPEAN ECONOMIC COMMUNITY
$ US 200.000.000
11,50% 1983/1995

We inform the bondholders that the redemption instalment of $ US 20.000.000, nominal due on January 18, 1989, has been satisfied by a drawing on November 16, 1988, in Luxembourg in the presence of an Huissier.

The bonds will be reimbursed at par on January 18, 1989, coupon due on January 18, 1990 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:

in denomination $ US 1.000 — 9 to 6968
in denomination $ US 10.000 — 1 to 702 and 4399 to 5000

The following bonds in denomination $ US 10.000, called for redemption have not yet been presented for the payment:

18 January 1986

741	752-755	792	794
1042-1043	1048	1143-1144	1202-1203
1232	1249-1254		

18 January 1988

2703-3519

The following bonds in denomination $ US 1.000, called for redemption on January 18, 1988 have not yet been presented for the payment:

1-8	7949-7958	7961	7968
7974-8505	8507-8991	8993	9029-9048
9054-9093	9101-9116	9122-10000	

Amount outstanding after January 18, 1989: $ US 120.000.000

THE PRINCIPAL PAYING AGENT,
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, avenue Emile-Reuter
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ASIA SUPER GROWTH FUND, SICAV
société d'Investissement à capital variable

Registered Office:
Luxembourg,
14, rue Aldringen
R.C. Luxembourg
Section B 26.198

DIVIDEND ANNOUNCEMENT

The shareholders are hereby informed that the Annual General Meeting of November 18th, 1988 has approved the payment of a dividend of US$ 0,005 per share to shares subscribed and in circulation on July 31st, 1988 Ex dividend date 1st August, 1988, payable on or after November 30th, 1988 against presentation of coupon No 1.
The Shareholders can cash the dividend at the following bank:
Banque Générale du Luxembourg S.A.
27, avenue Monterey
Luxembourg

The Board of Directors

IVORY & SIME ATLAS FUND
Societe d'Investissement à Capital Variable
Registered office 18 Boulevard Royal, L-2449, Luxembourg
RC B27229

Notice of Extraordinary General Meeting

The shareholders of Ivory & Sime Atlas Fund (the "Company") are hereby convened to attend an Extraordinary General Meeting of Shareholders to be held at the registered office of the company on 7th December, 1988 at 11a.m. with the following agenda:-

1. Approval of the changes to be made to the investment policies of the Liquidity Portfolios and the Bond Portfolios by a resolution of the holders of shares of all classes so as to adjust these pursuant to regulatory requirements for the registration of the Company as an undertaking for collective investment in transferable securities (UCITS) in accordance with the Luxembourg law of 30th March, 1988.

2. To amend the Articles of Incorporation in respect of Articles 2-6 and 8, 11, 13, 14, 16 (as these relate to definitions of permitted investments and to investment restrictions) 17, 20-23, 25 and 27-31, so as to conform these to necessary and useful changes pursuant to the Luxembourg law of 30th March 1988 on collective investment undertakings. The full text of the restated Articles of Incorporation showing the proposed changes, is available for inspection and can be obtained on request from the registered office of the Company from its Registrar, Management International (Luxembourg) S.A., 18 Boulevard Royal, Luxembourg.

The decision on item 1 requires no quorum and may be passed by a simple majority of the votes present or represented. Resolution 2 requires at a first general meeting a quorum of one half of the shares outstanding and a majority of two thirds of the shares present or represented in order to be passed.

The holders of Bearer Shares should deposit these at least five clear days in advance at one of the following Banks:-

Bank of Bermuda (Luxembourg) S.A.,
18 Boulevard Royal
Luxembourg.

The Bank of Bermuda (Guernsey) Ltd.,
Bermuda House,
St. Julian's Avenue,
St. Peter Port,
Guernsey, Channel Islands.

By order of the Board of Directors,
Management International,
(Luxembourg) S.A.
Secretary

GENERAL MOTORS CORPORATION

NOTICE IS HEREBY GIVEN that resulting from the Corporation's Declaration of a Dividend of $1.25 (gross) per share of the Common Stock of the Corporation, payable on the 10th December 1988 there will become due in respect of Bearer Depositary Receipts a gross distribution of 6.25 cents per unit.
The Depositary will give further notice of the Sterling Equivalent of the net distribution per unit payable on and after the 15th December, 1988.
All claims must be accompanied by a completed Claim Form and USA Tax Declaration obtainable from the Depositary. Claimants other than UK banks and Members of The Stock Exchange must lodge their Bearer Depositary Receipts for marking. Postal claims cannot be accepted. The Corporation's Third Quarter Report for 1988 will be available upon application to the Depositary named below.

Barclays Bank PLC
Stock Exchange Services Department
54 Lombard Street London EC3P 3AH

LEGAL NOTICES

No 005384 of 1988
IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
IN THE MATTER OF
JOHN WADDINGTON PLC
AND
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 24th October 1988 confirming the cancellation of the Share Premium Account of the above named Company was registered by the Registrar of Companies on 12th November 1988.

Dated this 24th day of November 1988

Hepworth & Chadwick
Cloth Hall Court
Infirmary Street
LEEDS
LS1 2JB
Ref: L/PRM/KLR

Solicitors for the above named company

ART GALLERIES

LONDON ORIGINAL PRINT FAIR, Royal Academy, Piccadilly, W1. 2-5 Dec. Daily 11-6pm (Mon 8pm) Adm. £4 incl. cat. 01-439 1231

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APPOINTMENTS

Change at Comet Group

■ WOOLWORTH HOLDINGS has appointed Mr Brent Wilkinson as managing director of Comet Group. He was marketing and buying director and replaces Mr Eddie Styring, who is joining European Brands, an international perfumery company.

■ Mr Robert Stewart, previously chairman and joint managing director of KYLE STEWART, has become executive chairman, while Mr John Trussler, previously joint managing director, has become managing director.

■ Mr Lennart Hedlund has been appointed managing director of ATLAS COPCO (GREAT BRITAIN) from January 1. He was managing director of Atlas Copco (Canada).

■ Mr Christopher Russell has been appointed finance director of HAWTAL WHITING HOLDINGS from January 1. He was finance director of Aston Martin Lagonda, and succeeds Mr Ken Sinclair who becomes commercial director.

Mr Ian Ferguson has been appointed managing director of HUNTING GATE CONSTRUCTION

Mr. W.A. Wilson (above) has succeeded Mr R. Cowie, who retires on December 31, as director and general manager of the machinery division of PEABODY HOLMES. Mr Wilson was deputy general manager.

(HOLDINGS). He was with Wimpey UK, as executive director responsible for the London and eastern regions.

■ FENCHURCH INSURANCE BROKERS has appointed Mr Dudley Howland and Mr Julian Massey as assistant directors of credit insurance services.

■ SYNTEK has promoted Mr Alan Joy to managing director. He was part-time financial director.

■ Mr John Kerridge has joined the board of UNIGATE as a non-executive director. He is chairman and chief executive of Fisons.

■ COIN CONTROLS, a Pilgrim House Group company, has appointed Mr Bob Dean as marketing director.

Mr Chris Barfield, who was vice president of technology, has been promoted to president of METIER MANAGEMENT SYSTEMS, London, a Lockheed subsidiary.

■ On December 5, Mrs Sheila Garrard will join MERRILL LYNCH's UK/European research division as a senior industry analyst specialising in the banks of Southern Europe.

■ Mr Martin Simons has joined the corporate finance department of SALOMON BROTHERS INTERNATIONAL, London, as a consultant specialising in the chemical industry. He was in the planning department of ICI.

■ Mr David Tyler has been appointed a corporate banking director in STANDARD CHARTERED BANK's corporate banking division, where he will be responsible for asset distribution and corporate financing. He was head of European mergers and acquisitions at the First National Bank of Chicago, London.

■ Mr David Welham, a group managing director, and group finance director, of the Royal Dutch/Shell group, has been appointed a non-executive director of GRAND METROPOLITAN. A non-executive director, Mr Frank Pizzitola, a partner in Lazard Freres, New York, has retired from the Grand Metropolitan board.

■ BASS has appointed Mr Robert Caston as managing director of Crest Hotels, succeeding Mr Pugh Phillips who has been promoted to director of information technology at Bass. Mr Caston was operations director.

■ Dr John S. Ford has been appointed director - business development at CHRISTIAN SALVESEN from December 1. He joins from Williams Holdings where he was managing director of the industrial and military products division.

■ Mr Richard J.S. Oppen is to join BERGE Y CIA (UK), a Spanish trading house, as managing director in London on December 1. He was with shipbroker Galbraiths.

■ THE MILK MARKETING BOARD has appointed Mr Ian Williamson as director of finance responsible for milk marketing and farm services. He was finance director for Modo Paper UK. Mr George Wright remains group finance director for the Board.

■ HEREFORD INTERNATIONAL SECURITY GROUP, formed as a holding company for ISS Ltd., UK, and ISS Inc., US, has appointed to its board Sir David McNee as chairman; Mr J. Wick, deputy chairman and chief executive; Mr E.J.A. Clucas, financial director; and Mr P.A. Wick, director and company secretary. Mr N.M. Young, executive director, and Mr C. de Vere Shaw, marketing director, have been appointed to the board of ISS Ltd. Mr Richard Hickson has been appointed executive vice president - projects on the board of ISS Inc.

■ SONOCO EUROPE has appointed Mr Chris R. Webber as managing director, Sonoco U.K. He joined the group when it acquired Capseals, and he became group finance director for the European businesses.

Mr Robert Chadwick has been appointed special projects manager at ROYAL LIFE HOLDINGS Liverpool head office.

■ Mr Paul Cole has been appointed contracts director of PARNALL AND SONS, Bristol. He was managing director of Imperial Shopfitters.

■ FAIRLINE BOATS has appointed Mr Ken Wappat as manufacturing director from December 1. He was director of manufacturing at APV Baker.

■ RAILFREIGHT DISTRIBUTION (part of BR) has appointed Mr Tim Hansford as director, deepsea business. He was with Freightliner, one of the BR companies comprising the newly-formed Railfreight Distribution.

■ Mr Anthony Brooks has been appointed financial director of HOOPER & CO (COACHBUILDERS).

■ Ms Elizabeth Vann has been appointed finance director of MICHAEL STEWART DESIGN, Bournemouth. She was with Chase Manhattan Bank.

■ ALFRED McALPINE CONSTRUCTION HOLDINGS has been established to co-ordinate development and strategy of three key divisional activities: regional projects, major projects, and management contracting. The new company is headed by group chairman Mr Bobby McAlpine. Mr Trevor Wilson, a member of the board of Alfred McAlpine, succeeds Mr Brian Stanley (who has retired) as construction division director. Mr Peter Hulmes heads the regional projects group; Mr Howard Stevens head the major projects group and Mr David Deas is managing director of Alfred McAlpine Management. Mr Noel Briggs has been appointed president of Alfred McAlpine Inc., to oversee the group's construction, minerals and homes operations in the US. Mr Charles Roberts has been appointed senior vice president of Alfred McAlpine Inc.

LEGAL COLUMN

Case for the contingency fee has its advocates

By David Churchill

THE COLD wind of competition blowing through the legal profession may be intensified by renewed pressure for a change in the British legal system to allow US-style contingency fees to become accepted practice.

The publicity surrounding the Piper Alpha oil platform disaster has brought back into sharp focus the issues surrounding the payment of compensation to the relatives of those lost. While in this case Occidental Petroleum has seemed to bend over backwards to offer a speedy settlement outside the British courts, the issues are not always so clear-cut.

It is in these cases that the concept of "no-win, no-fees" litigation, the norm in the US, seems to become more attractive. And it is an issue which will almost certainly form part of the Green Paper on the legal profession due from Lord Mackay, the Lord Chancellor, early next year.

Both the Marre committee and the earlier Civil Justice Review this year have come out in favour of a re-examination of the restrictions on a contingency fee system in the UK. The Law Society is also understood to be carrying out an internal review of the case for and against changing the rules to allow lawyers to be paid according to results.

The concept has received a mixed reception from Britain's lawyers, however.

"Contingency fees should have been allowed years ago," insists Mr John Pratt, a partner in solicitors Needham and Jones with offices in Birmingham and London.

"The undoubted danger that lawyers will not take on cases that are unlikely to succeed and will 'inflate' claims do not outweigh the benefits of such a system for the impecunious litigant."

On the other hand, Mr Graham Jump of the Liverpool and Manchester based solicitors Mace and Jones argues: "While a contingency fee system is superficially attractive and sounds consumer friendly, I am firmly of the view that for the vast majority of cases the public interest is better served by a fee-based system."

The contingency fee system, as it operates in the US, means the plaintiff's lawyer takes an agreed percentage of the damages recovered if the litigation succeeds, but makes no charge if the case is lost. This removes the fear of too high, or escalating, costs for the plaintiff.

In Scotland there already exists a long tradition of a lawyer acting on a 'speculative' basis. The arrangement there is that the lawyer will be paid the normal fee if the case is successful. If the case is lost, then no fee is payable.

The 1980 Royal Commission on legal services in Scotland commented that "speculative actions have traditionally been useful to pursuers who have a reasonable case but who have been excluded from legal aid on financial grounds."

It added that such speculative action "might remain attractive to small businesses excluded from the scope of legal aid, although in our view businesses ought properly to obtain insurance to cover their needs as potential litigants."

'*Ultimately*, lawyers will only take on the reasonable cases on a contingency basis'

In England and Wales plaintiffs of modest means are protected by the legal aid scheme from the fear of having to pay costs, although they may have to pay a contribution. Contingency fee arrangements are prohibited by the 1974 Solicitors Act which also effectively bans most other incentive schemes for lawyers.

The main case against contingency fees is that they create a conflict of interest between lawyer and client. Additionally, it is also suggested that lawyers would only concentrate on strong cases or those with nuisance value.

"A client with a marginal or difficult case would have problems in finding a lawyer prepared to take on even a reasonable case," believes Mr David Allan, partner in Newcastle-based solicitors Ingledew Botterell.

"As I have experienced recently, when the US lawyers' fees, on a time basis, were approaching the contingency fee percentage of the damages on offer by way of settlement, there was overwhelming pressure on the client to settle rather than advance the case to trial," he adds.

"It is no use suggesting the client has the option of a contingent basis or a straightforward time basis, as ultimately, as in the States, the lawyers will only take on the reasonable cases on a contingency basis."

There is another problem with the system being introduced in England and Wales, where costs follow the event: in the event of losing, plaintiffs without funds would have to meet defendants' costs or enter into an agreement for their lawyers to meet such costs.

As the Civil Justice review Body commented in June this year: "In such cases the lawyers' contingent fee in the event of victory would no doubt be the larger."

The key pressure for change, however, is the failure of the legal aid system in England and Wales. "If there was a proper and working legal aid system in operation, then the case against a contingent fee system would be strengthened," points out Vanni Treves, senior partner of Macfarlanes.

Equally, many middle-income would-be litigants are precluded from going to law because of the potential costs. "Provided that we have appropriate safeguards, the concept of contingency fees presents an opportunity to re-open the doors of the courts to many who are now deprived of their legal rights by financial constraints," says Mr Trevor Lewis, joint senior partner of Leeds and Bradford-based solicitors Hammond Suddards.

However, the strongest case for a contingency fee system in England and Wales in the 1990s is simply that it would fit in very well with the current vogue for payment by results — a concept that strikes more than a little trepidation in the minds of a profession which is only slowly coming to recognise its need for change in the decade ahead.

*****

COMPETITION among solicitors has prompted the City firm of Stephenson Harwood to become one of the first to appoint a specialist director of marketing.

Mr Christopher Stoakes, aged 30, has been given the job with Stephenson Harwood after a career in law and journalism.

He believes that marketing in the legal profession "is about pin-pointing what existing and potential clients want so that a better service can be provided."

Stephenson Harwood has recently established an Information Technology Group to serve clients in the computer, data, and communications fields.

It was the first to set up a Financial Investigations Unit for companies and individuals involved in Department of Trade and Industry and disciplinary inquires, and is about to launch a Planning and Rating Group to deal with issues arising out of property development.

*****

THE WAVE of mergers among firms of solicitors continues with the coming together of two long-established firms of London solicitors.

Field, Fisher & Martineau will merge with Waterhouse from next May to form a partnership called Field Fisher Waterhouse, with 41 partners and about 200 staff.

Senior partner of the firm will be Mr James Lemkin.

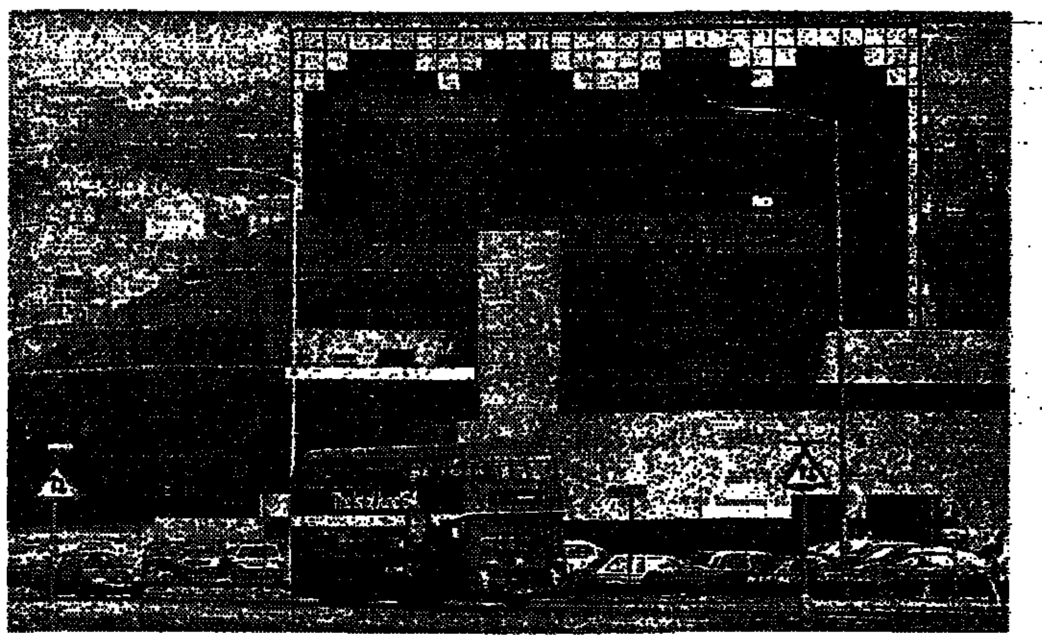
LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS 15TH NOVEMBER 1988

FINANCIAL TIMES SURVEY

Swansea Bay

Thanks to joint public and private investment on a large scale, reports **Anthony Moreton,** Welsh Correspondent, author of this survey, the Swansea Bay area is now well on the way towards replacing its industrial dereliction with an attractive new environment



Left, the imposing new face of the recently refurbished Grand Theatre, Swansea. Right, Three Cliffs Bay, one of many attractions of the nearby Gower peninsula

Facelift for prosperity

JUST OUTSIDE Swansea's the official boundary, workmen are putting the final touches to refacing Ford Motor company's component plant. The tired facade of the 1960s building is giving way to a fresher, more modern design.

Inside, Ford is about to embark on a massive re-capitalisation programme that will cost the car company at least £100m, possibly a lot more.

What is happening at Ford is symbolic of what is happening in Swansea. New investment is taking place on a large scale and dated parts are getting a face-lift.

The new investment is personified by the Holiday Inn, which will open its doors next Spring, and by the Hothouse, a futuristic steel-and-glass pyramid at the very entrance to the heart of the city beyond the Ford works. This is being put up in a joint public-private sector scheme to replace a botanical building in Singleton Park on the verge of collapse

It is also personified in the maritime quarter, which has recently won an award as the best inner-city development in Britain, in the barrage which will allow the decaying river bank to be developed and in a multi-million pound scheme around the St Thomas station site that will help improve the prosperity of a neglected part of the city.

"The potential is so great it is almost frightening," says Mr Bob Wigley, chief manager of Lloyds Bank, Swansea. "There is a lot of commercial activity taking place and if the city capitalises on this and on its new-found confidence it can become a very prosperous place."

Mr Wigley has only to look through his window to see the physical evidence of that confidence. His bank occupies a prime site in the Swansea Enterprise Park, the first Enterprise Zone to be established in Britain in 1981.

Opposite is the Hilton National hotel, his next-door neighbour is Barclays Bank and up the road is a large out-of-town shopping complex.

The Enterprise Zone, with its 10-year-rates holiday, 100 per cent capital allowances and minimal planning regulations, has revitalised a badly run-down part of the city. "It's no exaggeration to say that this was the most polluted area of land in Europe," says Mr Mike Burns, assistant director of Swansea's Trade and Industry Centre.

The area was the home of Britain's metal smelting industries in the 18th and 19th centuries. Lead, zinc, copper, tin were all produced here and their residue simply seeped into the land, poisoning much of it. "Now it not only has industry and commerce but has also been turned into an environmentally attractive area."

The Enterprise Park should be looked upon as one of the strategic growth points in the economy of south Wales.

Although most of the smelting industries have long since disappeared Swansea nevertheless retains a core of large manufacturing names, a core that is probably disproportionately large for a city of its size.

Those names include AB Electronics, BP Chemicals, British Steel, 3M, Metal Box, Morganite Electrical Carbon, IMI, Signode, Corgi, Spontex and Mond Nickel. Some, like Alcoa, have been spending heavily to stay in the forefront.

Over the next three years the company, a major employer in the city with a workforce of 920, intends to double the capacity of its extrusion mill at a cost of around £7m. In the same period it will spend between £5m and £6m on the sheet side of the works to meet a big increase in European demand for aluminium for cans it sees emerging in the 1990s.

There are also important service centres in the city such as the Land Registry and the Driver Vehicle Licensing Centre. The big manufacturing companies, however, no longer dominate the economy as they once did. A decade ago the 30 largest concerns, mostly in manufacturing, employed between 40,000 and 42,000 people. Today that figure is under half, around 19,500, says Mr Robin Wheway, industrial development officer for West Glamorgan County Council.

That drop now appears to have bottomed out since it has not varied significantly for the last three years. Just over half the top 30 recorded a slight fall in numbers but 13 actually increased their workforces. Swansea Electrical Components, part of the highly successful AB Electronic Products group, is one: it has continued to expand to the point where it is not only the city's largest manufacturer but also among the top five in the county.

The Ford investment is certain to boost numbers, though not proportionately to its size, and Corgi, which began its new life in 1984 as a management buy-out with 200 workers, has increased the total to about 550 according to Mr Mike Rosser, a director.

The big fall in manufacturing has meant a commensurate rise in the number of men on the unemployed list. The newly created jobs have gone largely to women workers. Even so, the unemployment figure for men is not very different from that for Wales as a whole. Further manufacturing growth is likely to come more from the smaller companies than the big boys. Mr Chris Rowlands, South Wales director of Investors in Industry (3i), says that his venture capital organisation has made 19 investments in Swansea and seven of those, involving an outlay of £2.5m, have occurred in the past 12 months.

"During the last year we have seen a significant increase in investment opportunities," Mr Rowland says. "Our level of activity is high, a reflection on the situation in the city."

That view refutes the oft-held contention that Swansea could never compete for inward investment against the perceived superior attractions of Newport, Cardiff and Bridgend in south east Wales. Overseas concerns, including two Japanese companies, Orion in Kenfig Hill and Matsushita Electronic Components in Port Talbot on the eastern shores of Swansea Bay have shown that incomers are willing to move further west. Silent Channel, an American company which makes components for the vehicle industry, is also moving to Port Talbot.

Within the next few months some companies are also likely to move into Swansea itself. Lloyds Bank is looking at the possibility of setting up a back-office operation in the Enterprise Park and it could find part of a government office relocation from the London area as a neighbour.

To capitalise on this interest the local authorities in the area are joining the Welsh Office and the Welsh Development Agency to launch a Swansea Bay initiative next spring. Their model is the highly successful South East Wales Initiative, launched by Mr Peter Walker, Secretary of State for Wales, earlier this year in the City of London which was aimed at attracting companies in the South-East's crowded financial sector.

The Swansea Bay Initiative will not be aimed at the financial sector so much as a broad spread of industrial and commercial interests. And it has a specific target. "We want to win 40 projects within two years," according to Mr Burns of the Industry Centre.

But within this encouraging picture there are some disturbing features. Skill shortages are emerging and there is a more rapid rise in part-time jobs than in full-time ones. One company has admitted that 40 per cent of its workforce is now part-time. Since most part-time jobs are taken by women the outlook for men, especially older men and those on the long-term register or without particular skills, remains uncertain.

The most disturbing feature of the economy, though, is the blockage that occurs in the broken link in the M 4 motorway at the entrance to the city. For some reason that no one in Swansea can fathom the government has until now done little to fill in the missing link. If industry is to be attracted further west along the M4 corridor and into the Swansea area then completion of the motorway link is an essential piece in the Swansea jigsaw.

KEY FACTS

City population: 172,433
County (West Glamorgan) population: 360,200
Unemployed rate: 13.8 per cent
Employment in high tech & producer services(1984): 8.5 per cent
Average house price(1987): £35,800
Road distances (miles)
-Cardiff 44
-London 212
-Milford Haven 69
Source: Property Intelligence, Town Focus Plus (01)839.7684

The university's new Innovation Centre has proved its worth

Spin-off businesses flourish

TWO YEARS ago, when the innovation centre was opened at Swansea's University College, there were sceptics who questioned the allocation of money to such a venture.

Two years on, the centre is 90 per cent full, making a valuable financial surplus which is being ploughed back into the hard-pressed college and there is talk of expansion in the air.

Mr Sidney Brailsford, the director, believes the £1.5m development, set up as a joint operation between the college and Welsh Development Agency, has more than proved its worth. He points to some of the advanced work being undertaken by companies in the centre, such as Shanning Laser Systems, where Dr Marc Clement is developing a range of lightweight carbon dioxide medical laser instruments for the treatment of cervical cancer and cardiovascular disease.

"Its low weight and high degree of mobility will enable doctors to perform minor operations on a day-surgery basis," Dr Clement says. "By providing opportunities to treat diseases such as cervical cancer on an out-patient basis the development will drastically reduce waiting lists for other urgent cases in the health service."

Mr Brailsford also points to Eidawn Biosensors where Professor Dawood Parker is producing a multi-channel cardiac output monitor for recording physiological signals.

Of the centre's 20 tenants two-thirds are spin-offs from the university. Incubator units like the innovation centre often have a high mortality rate among their inhabitants: it is the price to be paid for encouraging start-ups. Swansea has had an enviable record in that only one of its concerns has gone to the wall.

Encouragingly, some of its present tenants are now looking to expand elsewhere in the city as they outgrow their present premises. Eight of the tenants have already doubled the number of their staff and there are now over 100 employed in the building at the back of the campus.

The centre is, by its nature, small and womb-like. The 20,000 sq ft building does not allow a lot of space for even small companies to expand and the possibility of a £1.5m expansion that would almost double present space, allowing it to offer slightly larger individual premises as well as more of them, is being discussed.

Could the innovation centre be the progenitor of a full-scale science park in Swansea?

Continued on Page 2

SWANSEA BAY 2

Investment in high-grade tourism facilities still offers the opportunity to attract more visitors to . . .

Dylan Thomas's lovely, ugly town

DYLAN Thomas, who was brought up in the immortal Cwmdonkin Drive overlooking the bay, once described Swansea as his lovely, ugly town. Any town that has Dylan Thomas as its patron saint has a full league start when it comes to attracting visitors.

Swansea does not disappoint. The town, more accurately now a city, is nothing extraordinary. But it has been blessed with perhaps 50 miles of coruscating coastline stretching along the Gower peninsula from Mumbles in the south through bays such as Langland, Caswell, Oxwich, Port Eynon and Rhossili Horton to Penclawdd in the south, where the world-famous cockles are still gathered laboriously by hand as the tide recedes.

Swansea has not made the best use of this jewel. When the Holiday Inn opens next spring it will be only the third front-rank hotel.

A recent report prepared by Dr Terry Stevens, of the West Glamorgan Institute of Higher Education, a leading academic involved in the tourist industry, pointed out that of 18,400 bed spaces in the city, including Gower, half were accounted for by self-catering caravans, a sector that contributes little to the economy.

Dr. Stevens estimated that tourism brought in £46m a year and provided work for 3,500 people. Considering the facilities available, especially in the new maritime quarter development, this is clearly totally inadequate.

The development of the maritime quarter shows that Swansea both knows what it wants and is prepared to spend to get it

Dr Stevens pointed out that to expand the market it was necessary to upgrade all the hotels, put more money into the shopping centre, develop one or two major new attractions and decrease the dependence on the self-catering visitor.

The Holiday Inn, backed by a government urban grant, is one important step in that direction. But three large hotels — Ladbroke's Hilton National and THF's Dragon are the others — are simply not enough.

This is shown by their unwillingness to offer discounts to other than big events — demand for their rooms is so great they feel no need to offer inducements.

One way of bringing in more money is to develop conference business, but this goes hand-in-hand with hotel bed spaces. The city has adequate facilities for the small-to-medium-sized conference: the university can offer a meeting place for up to 1,200 delegates (though only in vacation time) and the Guildhall could handle about the same number. But Swansea would be hard-pressed to put such a number up overnight in the sort of accommodation that senior business people expect.

The city is aware of these constraints. It is considering a medium-size conference hall in its town centre development and has set itself a sensible target of attracting the medium-size, but nevertheless highly profitable, conference.

The city would also like a tourist magnet, preferably something linked to its sea-going heritage. It would particularly like to integrate the maritime quarter into the heart of the city through a major tourist draw.

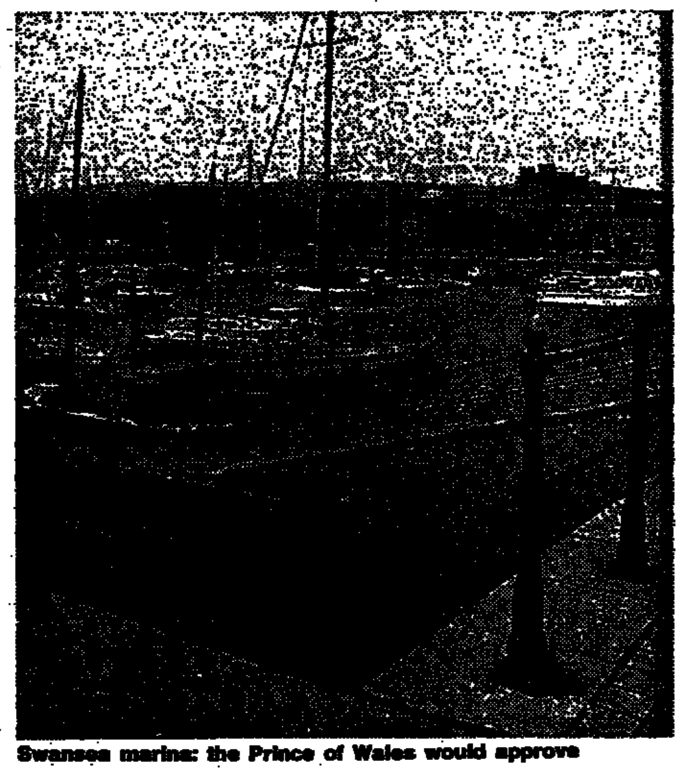
There is some hope here as at least two developers are showing interest in providing a marine-linked tourist attraction on land allocated by the council within the marina.

The development of the maritime quarter shows that Swansea both knows what it wants and is prepared to spend to get it. In less than a decade, the city has transformed a derelict dock into one of the most successful marinas in Britain: it is not just profitably full but also aesthetically pleasing. The Prince of Wales would approve. Last month, the marina was presented with the top award of the Royal Institute of Chartered Surveyors inner-city competition.

The institute's chairman, Mr David Yorke said the scheme illustrated how sound, imaginative planning, combining cost-effectiveness with care, could transform a decaying area into a vibrant and flourishing area.

Along the way, the maritime quarter beat 123 other projects for the award, including Liverpool's Albert Dock and Wavertree technology park schemes, Dundee's Upper Dens Park, Sunderland's Webster's Ropery and London's Greenland Dock.

The maritime quarter is an important step towards achieving a better return from Swansea's tourist industry. But as the Stevens report presciently pointed out, there is a lot still to be done if the city is to convert its superb natural advantages into a sound economic return.



Swansea marina: the Prince of Wales would approve

Swansea's Quadrant Shopping Centre: a draw for shoppers from all over south-west Wales

PROPERTY MARKET

Demands reflect confidence

THE SUCCESS of the maritime quarter, where houses are now selling at three times their original cost and land is four times its original value, has had an enormously beneficial value for the whole of Swansea. It has shown that modern developments can produce an attractive return and boosted confidence in the rest of the city.

The most obvious example of this knock-on effect can be seen in recent disposals around the nearby North Dock area, where Lovells has paid £500,000 an acre for mixed residential and commercial land, approaching the top end of the price scale for land in this part of Wales.

Lovells has also paid £3m for six acres on the St Thomas station site, a major development that will incorporate a hotel as well as housing.

Building work is also expected to start next year on a city-centre scheme covering 20 acres to include, besides shops, a concert hall, ice rink, library and exhibition centre.

"All these developments, together with the barrage costing £12m across the river Tawe, which will work wonders for the riverside, reflect enormous confidence in the city," Mr Peter Bennett, assistant estates officer, says.

There is now strong demand for land throughout the city for both commercial and office developments. There is probably still an over-supply of older office premises, partly as a consequence of the county council moving into its new headquarters fronting the beach, but this has done little to hold back the demand for modern, high-technology buildings, which remain at a premium.

The Enterprise Zone, where both the rates holiday and the 100 per cent capital allowances remain on offer until June 1991, continues to be a major attraction.

The Property Services Agency, which is looking for sites for at least one major relocation of a government office out of London, has already taken a large part of Charter Court, a campus-style development opposite the Hilton National hotel and next to Lloyds Bank's regional headquarters.

Phase one has been finished and completely let. Phase two is 80 per cent finished and much of it has been let. With prices ranging around £5 a sq ft compared with up to £65 in the City of London, Swansea can offer very big cost savings. Even so, few developers from outside Swansea bay have yet been attracted in. Most of the work is being undertaken by local firms, in which B+J(Swansea) is prominent. Just recently though, EZD, (Enterprise Zone Developments) and British Urban Developments (BUD) have both shown an interest in joining in the fray.

Mr Meirion Thomas, the Welsh Development Agency's regional manager, believes rents on commercial properties have now reached the point sufficient to interest the private developer, a belief that both EZD and BUD would appear to confirm. "Rental levels are now starting to become 'respectable'," he claims. "On larger properties they are probably still below what the private sector would like but on the smaller ones they have reached an attractive level".

What is important now, he believes, is quality and location. Baglan Bay, between the city and Port Talbot, has been extremely successful, attracting among others Japan's Matsushita and the US concern Silent Channel, a producer of rubber mouldings for the motor industry, which is already in Maesteg and is now expanding onto the Baglan Bay estate. "There is now an increasing awareness of Swansea as a centre to set up manufacturing," he says.

This will help boost the economy. The major worry is that a shortage of land could emerge which will hold back that growth. Money is available for speculative schemes up to about 20,000 sq ft, Mr Bennett, claims, something that could not have been said as recently as 12 months ago.

What the developer wants is serviced land so that he can move in quickly. Swansea is aware of this need and is searching hard for ways of ensuring that the strong demand which has emerged over the last year does not peter out for lack of action on its part.

Spin-offs start to flourish

From previous page

There are those who would now back such a move, not least some, outside the university as well as inside, who were doubtful of the whole idea three years ago.

For the moment, Mr Brailsford, who has his feet firmly on the ground as befits someone who arrived via the CBI after a career in industry, believes the logical consolidation is the expansion of the centre itself.

"The centre's overall objectives are now being achieved," he says, "with a good interaction between tenants and college departments and a satisfactory technology transfer between industry and academia.

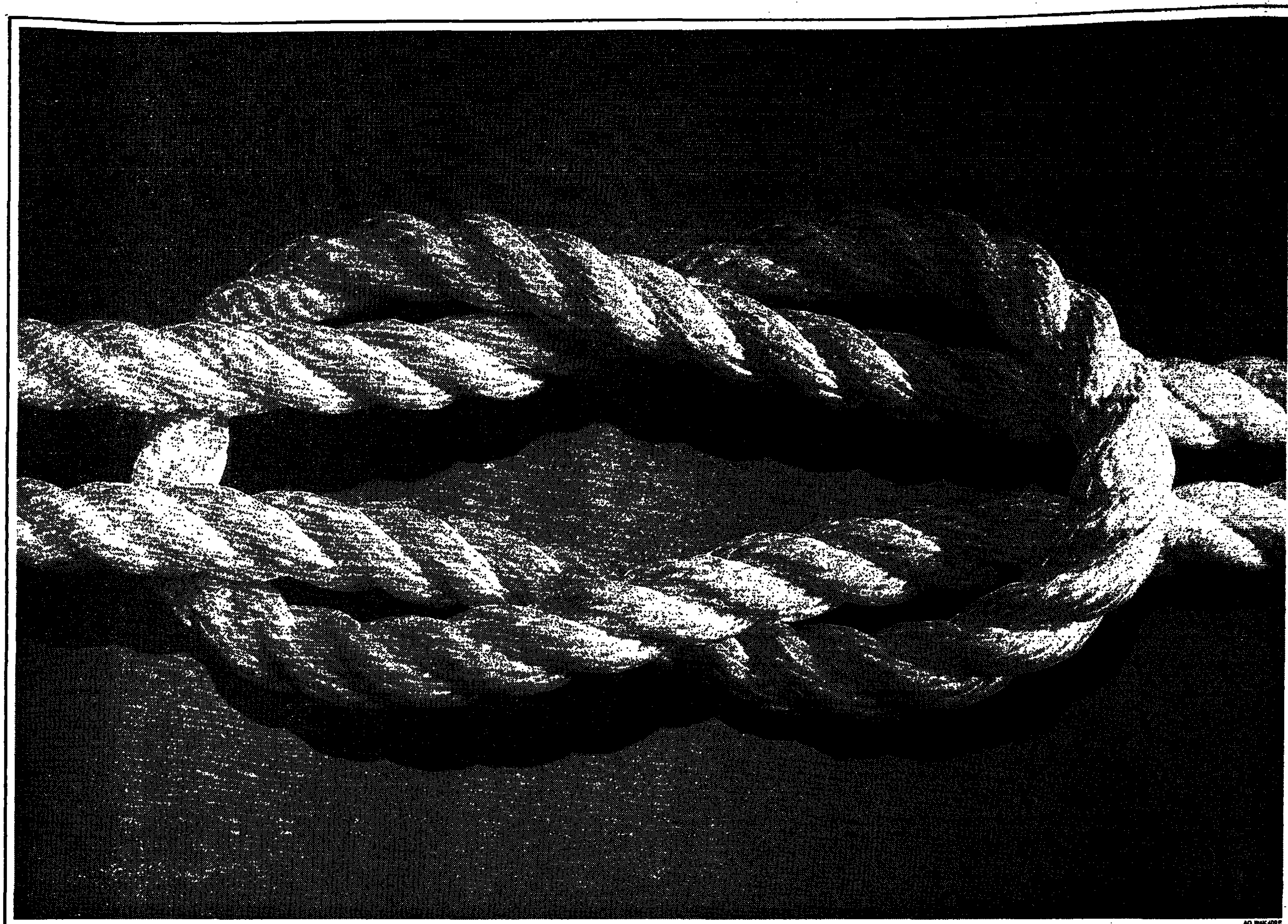
"If there were to be a third-phase development after the extension of the centre has been completed that would have to be outside Singleton Park, the university's home. It would have to be more of a science park housing growing companies rather than an incubator for start-ups."

Suc(k)cess

IN A redundant steelworks, Swansea has what is thought to be the biggest leech farm in the world.

"I founded the farm four years ago," says Dr Roy Sawyer, managing director of Biopharm (UK), "to develop the chemicals in leech saliva for pharmaceutical drugs. I never realised their value to microsurgeons who now use them to restore the blood supply to a newly sewn-on ear, nose or finger, or to skin, in a way no drug can imitate."

Dr Sawyer has 75,000 leeches waiting to be sold to universities, research labs or hospitals at any one time. The common-or-garden leech costs £2.50 but rarities such as the 18 inch-long Amazonian leech can cost as much as £80.



Don't drown St Paul's under a sea of rentable slabs

Colin Amery argues that the architects of the scheme currently on view for the Paternoster site have not tried hard enough

Now you can see it all. The long awaited, so-called Master Plan by Arup Associates for the Paternoster precinct of St Paul's is on show in the crypt of the cathedral until December 14.

I think it is misleading to call it a master plan. It is time to be much more realistic about Paternoster and it was a relief to hear Mr Peter Rees, the City of London Planning officer, tell the Planning and Communications Committee of the City last Tuesday that he did not think that anything would happen on the Paternoster site for at least five years.

He was commending the other plan which was also recently displayed in the cathedral, by John Simpson; and for perfectly serious technical reasons in order to discourage piecemeal development, the City does not feel that it can grant planning permission to any scheme until the tangled web of land ownerships are sorted out.

The Arup scheme currently on view should be looked at as simply another exercise to deal with the very real and difficult problems of this important site. It arose from a competition which was organised under the auspices of a previous owner of the site – the Paternoster Consortium; but this consortium sold its interests early this year before the international competition for the site had been properly resolved.

It was the Mountleigh Group plc who agreed that the eventual winners of the competition should be Arup Associates, and that they should continue to develop their ideas for a plan. While this work was in progress the Venezuelan-based Organizacion Diego Cisneros purchased the Paternoster site as part of a deal with Mountleigh. ODC have apparently said that while they are interested in finding sympathetic development for the site, they are not uninterested in selling it again.

In the middle of all this are the architects, who are struggling to put a brave face on a very confusing situation and produce a design that they hope the public, the Prince of Wales and all the interest groups in the City will like. It is an almost impossible task, and Arup Associates cannot be said to have succeeded.

We are solemnly told that the plans on view have been prepared after consultation with representatives of the Dean and Chapter of St Paul's, the Corporation of London, the Royal Fine Art Commission, English Heritage and others. These bodies formed themselves into a Committee under the chairmanship of Lord St John of Fawsley to encourage informed public interest in the site. The committee believes that it has achieved this purpose and has now stood down.

This seems an optimistic view of the situation. What does seem to have been achieved is a closer involvement with the Royal Fine Art Commission. The newly appointed additional architects, Richard MacCormac and Michael Hopkins, and the project manager, Mr Stuart Lipton, are all members of the RFAC – as, of course, is Sir Philip Dowson of Arup Associates.

The model and drawings on show in the crypt show a scheme that is still predominantly offices. The current buildings on the site contain 860,000 square feet of offices, shops, restaurants and pubs. The Arup proposals offer a total of redeveloped space of more than one and half million square feet of which just over one million is offices. There are other recommended uses, primarily shopping, and a suggestion of an hotel.

The principal architectural element of the scheme is the "inhabited wall," a long colonnaded range of buildings that is the actual interface with the cathedral. It acts as a screen to the massive office blocks behind. The other major and most striking element is the crescent shaped block to the north of the west front of St Paul's that partly encloses a large piazza.

It is this large building that looks superficially classical, with a great rusticated base and a large entablature sitting on some spindly bronze colonnettes. The scale of this block is crushing to the cathedral. It is very reminiscent of the blocks on the Via del Conciliazione that Mussolini built to link Rome to St Peter's and the Vatican; that street destroyed for ever the enclosure and sense of surprise that Bernini saw was right for St Peter's. This element is the most architecturally worked out on the model but it also very similar indeed to the Arup proposals for a huge banking building at Canon's Marsh in Bristol, also crescent shaped and colonnaded.

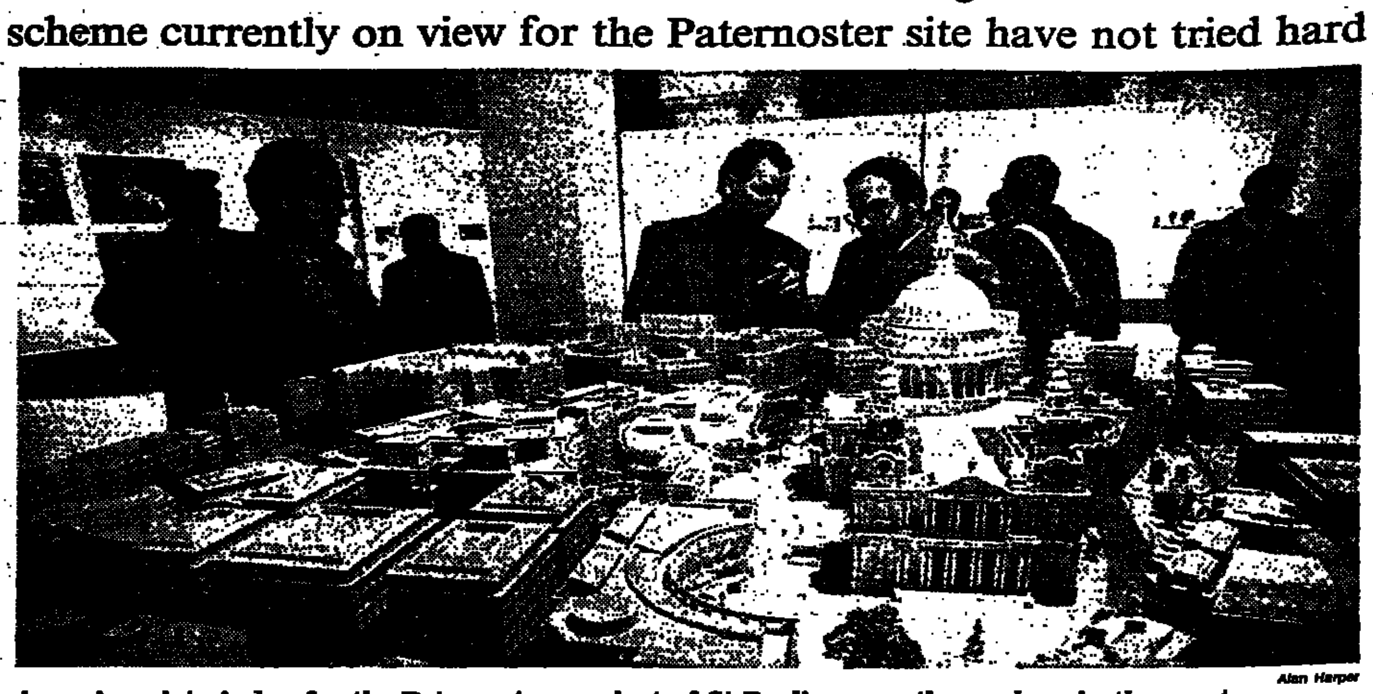
The curved glazed street that runs from Cheapside almost to the west end of the cathedral looks a good idea on plan. But in the drawings of the suggested treatment it is a towering, gaunt place – utterly unlike any known London arcade and much more like a giant version of provincial shopping centre. Temple Bar slips back into this scheme on the north side of the cathedral and a "market square" relieves the mass of offices between the cathedral and Newgate Street.

This scheme, unlike John Simpson's, ignores history and competes with the cathedral. I was surprised to learn from the architect from Arup who showed me the scheme that he had not had time to look at the excellent historical exhibition that was been organised by the Georgian Group and also held in the cathedral crypt. Surely any architect working on a site of this importance should study the past. He missed seeing the original Hawksmoor drawings that Arup claim have influenced their design.

The deep seated fear of classical architecture that is so evident in this scheme has resulted in an emasculated and inarticulate set of designs that should get no further than the model. If this scheme should be built we will simply have a second Broadgate by St Paul's. Arup have not tried hard enough.

There is another site that is currently the subject of a developers' limited competition to the south of St Paul's. The property company MEPC has invited eleven architectural firms to submit ideas for the Petershill site between Queen Victoria Street and Carter Lane. This is a crucial site and any development there should be considered as part of the whole precinct of the cathedral.

Both the Paternoster episode and the Petershill site competition reveal the great weakness in our present London planning situation. There is no public body to act as an independent umpire. Once again St Paul's and its setting may be sacrificed to meet expedient targets drawn up by developers. Surely it is time for the City Corporation to take a much firmer grip and establish aesthetic and public parameters for this crucial area before it drowns again under a sea of rentable slabs.



Alan Harper

Arup Associates' plan for the Paternoster precinct of St Paul's currently on show in the crypt

*

Colin Amery has been named Architectural Journalist of the Year. The award, presented by the International Building Press, is sponsored by RIBA.

Drums in the Night/Rustaveli Company

HAYMARKET THEATRE STUDIO, LEICESTER

While the undermanned and overparted *Guys and Dolls* company occupies Leicester's main stage until after the Christmas holiday period, the Haymarket's Studio Theatre continues with its bravely selected season of lesser-known classics. By luck or judgement the latest choice is entirely appropriate given the unexpected excellence of Leicester Art Gallery's modern German collection, with its emphasis on Expressionism and Impressionism.

The prize-winning *Drums in the Night* was the first of the young Brecht's plays to be produced (Munich, 1922) although he had already written *Baal* and *In the Jungle of Cities*. Ostensibly a reaction against Expressionism, the work is a mixture of near-Romantic atmospherics and tartly cynical didacticism hinting at things to come. The tale of a soldier believed dead returning to his disconcerted loved but not so loving ones at first glance goes back to the grandfather of all unwelcome homecoming heroes, Angelo Beolco's Ruzzante, the Renaissance Paduan usefully revived a couple of years ago by Shared Experience. Brecht is less interested in bucolic comedy, however, than national politics. The action takes place specifically against the background of the Spartacus uprising in immediate post-Great War Berlin.

The opening scene strikes a compelling note of fearful foreboding as the petty-bürgerlich family prepares to celebrate the engagement of daughter Anna to Friedrich Murk, young spiv on the up-and-up.

Anna is still obsessed by her missing fiancée, Kragler. Under the blood-red moon the sounds of riot and shooting can be heard: the insurrection is centred "in the newspaper district" (the image of an idealistic revolution based on Fleet Street is a startling one to a British audience). From the violent night in lurches Kragler after four years in a prison camp. Rejected by the family he takes to the streets with whores and rebels, though his political education is far from straightforward.

David O'Shea's direction has transformed the company that aimlessly negotiated the lifeless convolutions of Ford's *Broken Heart* earlier this season.

Underlining Kragler's outsider status by making him black may be overdoing it, but Dhobi Oparei's fine physical performance, rigid with tension or bowed in pain, even redeems his melodramatic cavernous boom in such lines like "And now I bleed and bleed!" (the Studio's next production is *The Bells*).

Sterling stuff from Frank – er – Stirling as both a revolutionary and a horribly convincing young bourgeois thruster; from Julia R. Taylor and Susannah Doyle, two full-blooded and luminously intelligent young actresses; and from Antony Douse as a lower middle-class businessman. The unexaggerated lesser-suburban accents are so well done that the Americanisms of G. Wellhaus's translation ("Sure, I'm sick to my stomach"; "He's got a real load on") emerge as all the more grating.

The production acceptably mixes styles, complete with a bar fight to Spanish music, half-tango, half-*corrida*. Brecht's Berlin may here be as sparsely populated as Runyon's New York in the neighbouring auditorium; but this company knows what it's doing – mounting a valuable revival of a worthwhile rediscovery.

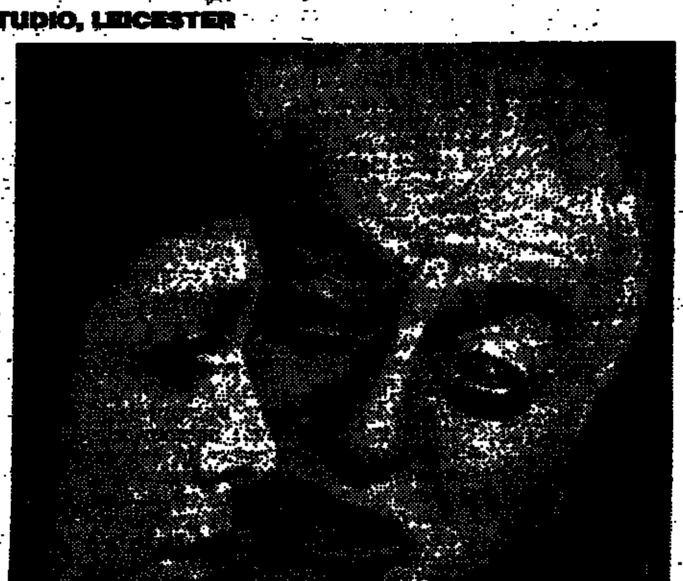
*

Last week the Rustaveli Theatre Company from Soviet Georgia gave four performances of a theatrical mixed bag, also in the Studio. Acclaimed as one of the world's great ensembles at Edinburgh and London's Round House nine years ago, their famed *Richard III* production is recalled in excerpts that will evoke happy memories for their admirers. Those who have not seen the company before must take its excellence on trust. The usual inadequacies of isolated chunks torn out of context, without the background, development or progression of a whole performance, leave the impression of a series of gimmicks. Judgement must in fairness be reserved on their trailer for the *Lear*, flamboyant and lively, they may bring to London next year.

Ramaz Tchkhikvadze is a Richard portly and white-haired, limping downstage, one leg constantly buckling and overtaken by the other, his voice wheezing out of mock-genial depths: Richard III as Mr Toad. His Azdak is Worzel Gummidge, verbose and loud. *The Caucasian Chalk Circle* suffers less from dismemberment into excerpts through the episodic nature of the play itself.

The whole impact was noncommittal, though the spectacle of mature gentlemen (Michael Coveney called them the greatest middle-aged company in the world; and nobody gets any younger in nine years) with token cloaks over their open shirts or polo-necks waxing voluble in an incomprehensible language on the set for a different show while a pleasant lady pianist fiddles with microphones come perilously close to the hellish after-life that haunts the guilty nightmares of theatre critics who have had things too soft and know that there must be a reckoning.

Martin Hoyle



Ramaz Tchkhikvadze as Richard III

Lady Audley's Secret

ICA THEATRE

Lady Audley's Secret is a novel of sensation, written in haste by Mary Braddon in 1862, which – against the odds of circumstance and authorial intention – has enjoyed cult as well as popular status. The set of scandal that greeted its publication was undoubtedly partly responsible for its success: here was a best-selling, un-French novel revelling in murder, bigamy and deception – by a woman moreover – without condemning their perpetrator.

It was a gift to the melodramatist, inspiring a flurry of stage adaptations in Braddon's own lifetime, a film in 1913 and finally this adaptation, designed by Stephen Meaha for the new production company Gloria, which has its feet on the stage but its head in dazzling clouds of filmic imagery.

The story runs as follows: Lady Audley, a governess who married the boss, hides A Terrible Secret. She is also Mrs George Talboy whose husband abandoned her years earlier. His sudden, unexpected arrival at Audley Hall drives our hapless heroine to murder most foul, laying her open to blackmail by her maid's unscrupulous lover. The revelation that Talboys not only survived being pushed down a well but is in forgiving mood, comes too late to save the unfortunate Lady A from confession and consignment to a lunatic asylum.

The novel's sensational content is espoused in a production which is staged with a stunning surrealism – clouds of talcum clear on a ship's rails, an oriental-carpeted room slewed at a ridiculous angle, and closed doors of varying size and significances. In its midst sits pianist Nicolas Bloomfield, tinkling out parlour favourites, one minute incidentally, the next in musical dialogue with a Lady Audley intent on acquiring ladylike tastes and accomplishments.

The audacious cross-texturing of the production, its juggling of theatrical convention and its quirky handling of narrative create some thrilling moments, but the camp self-indulgence of its imagery also poses a problem: Neil Bartlett, as the Audleys' avenging nephew, marches back and forth through a strategically placed spotlight, while the most impressive thing about Lady Audley's final desperate attempt to cover her tracks is the spectacle of two men being dramatically immolated on a slatted platform belching light and smoke up through a their writhing forms.

Attention in both cases is directed away from the the motive and plight of Lady Audley, a woman depicted by Annie Griffin as far removed from the "fair-haired demon of modern fiction" noted by Mrs Oliphant. She is dark and inscrutable, the controlled observer of, and commentator on, her fate. The sense of desperation is left to Leah Housman, who becomes increasingly Opheliaesque in her crazed gathering of her mistress's jewels. Her final confessional, explaining the psychological and social background to her mistress's crimes, should surely have been been incorporated earlier.

Claire Armitstead

Rostropovich's Shostakovich

BARBICAN HALL

The Shostakovich series masterminded by the London Symphony and Royal Philharmonic Orchestras, and their respective conductors Mstislav Rostropovich and Vladimir Ashkenazy, continued on its grand course with Thursday night's LSO performance of the Eighth Symphony of 1943.

This is surely the most powerful of the composer's "war symphonies", and certainly the most complex, subtle, and demanding – Shostakovich, of all the important 20th century composers, was probably the most extreme in his alternation of violent and melancholy moods and emotions, bareness and thunderousness of orchestral sound. But here the formal mastery is unflinchingly taut.

It is a work that obviously engages every fibre of Rostropovich's musical being. He responds with entirely characteristic generosity to its sound-world, and last night he urged the LSO to do the same. Many of the symphony's most personal inventions (such as the flutter-tonguing quartet of flutes in the Largo, out of which a gentle clarinet tune loops, or the icy tinctures of percussion in the preceding Allegro, or the acrid martial brassiness that keeps breaking in throughout the five movements) were re-created with a quite wonderful intensity of colour and meaning. As a display of Shostakovian orchestral colour the performance (after a somewhat loose, faltering start) was full of memorable sounds and incidents.

Ideally, though, the complete Shostakovich conductor (like the late Mravinsky, to whom this work was dedicated) combines passion with a certain "classical" detachment; he stands back from the music, sees the works long and whole. Rostropovich is not that kind of Shostakovich conductor – he is almost always moved by the spirit of the moment, sometimes with an erratic pressing or relaxation of speed, sometimes with fiery brilliance – and, while his stick technique has gained greatly in lucidity over the years, the passing hints of rhythmic untidiness at moments of gear-change suggested that the orchestra was not always at one with the conductor's beat or his intentions. One remembered LSO performances of the Shostakovich Eighth from the days when André Previn was its chief conductor: much steadier co-ordination, surer ensemble, less vividness.

There was similar evidence of Rostropovich's Shostakovian strengths and weaknesses in the introductory work, a suite (played in a curious unchronological order) of five entr'actes from the opera *Lady Macbeth of Mtsensk*. The riproaring brassy outbursts of parody, farce, vulgarity, and "extremist" emotions were given their head but the rhythmic repetitions that underpin them, and provide the music with its ferocity, were frequently scrambled.

Max Loppert

ARTS GUIDE

November 25-December 1

MUSIC

London

Moscow Radio Symphony Orchestra conducted by Vladimir Fedoseyev, with Nikolai Demidenko (piano). Tchaikovsky, Prokofiev, Mussorgsky. Barbican Hall (Mon) (638 8891).
Philharmonia Orchestra conducted by Owain Arwel Hughes, with Frank Peter Zimmermann (violin). Rimsky-Korsakov, Glazunov, Vaughan Williams. Royal Festival Hall (928 8800) (Wed).

Paris

Francisco Araiza recital, Irwin Gage (piano). Théâtre deL'Athenée (Mon) (47426727).
Camerata Lisy de Gstaad conducted by Sir Yehudi Menuhin. Bach,Mozart. Théâtre des Champs Elysées (Tue) (47203637).
Jean-Yves Thibaudet (piano). Debussy, Chopin. Salle Gaveau (Wed) (45626971).
Orchestre de Paris conducted by Manuel Rosenthal. Debussy,Saint-Saens, Rosenthal, Dukas. Salle Pleyel (Wed, Thur) (45630796).
Alexis Weissenberg, piano. Chopin recital. Théâtre desChamps Elysées (Thur) (47203637).

Brussels

Orchestre National de Belgique conducted by Georges Octors, with Lola Bobesco (violin). Mendelssohn. Palais des Beaux Arts (Fri,Sun) (512 50 45).

Frankfurt

Stuttgart Opera, concert version of Simone Boccanegra conducted by Sir Georg Solti, with Kiri te Kanawa, Timothy Noble, Paata Burchuladze, Paolo Coni, Carsten H. Stable, Peter Dvorsky, Uwe Heilman and Helene Scheidermann. Frankfurt Alte Oper (Tues).

Cologne

New American Chamber Orchestra conducted by Misha Rachlevsky. Elgar, Rossini, Schumann and Bartok. Philharmonie (Wed).

Amsterdam

Royal Concertgebouw Orchestra conducted by Charles Dutoit with Victor Liberman (violin). Mozart, Bartok, Elgar (Thur). Recital Hall.

Rotterdam

18th Century Orchestra conducted by Frans Bruggen. Haydn, Mozart, Beethoven (Wed). Recital Hall.
Musica Transalpina conducted by Karel Smagge. Mozart, Bach, Telemann. Doelen (Mon) (413 2490)

Utrecht

Liszt Festival, with Daniel Wayenberg and Toos Onderdenwijngaard (piano). (Thur) Recital Hall.
Colorado Quartet. Haydn, Beethoven, Bartok. Vredenburg (Tue).

Rome

Orchestra dell'Ensemble Intercontemporain conducted by Pierre Boulez, with Stephen Roberts (baritone), Mary Vonne le Dizes (violin) and Pierre-Laurent Aimard (piano). Schönberg. Teatro Olimpico (Wed) (393304).

Milan

Claudio Arrau (piano). Teatro alla Scala (Mon) (80.91.26).

Florence

Orchestra and Choir of the Maggio Musicale conducted by Gianandrea Gavazzeni. Rubini, Mussorgsky. Teatro Communale (Tues and Wed) (2779236).

New York

Jupiter Symphony conducted by Jens Nygaard with Claude Frank (piano). Beethoven. Avery Fisher Hall, Lincoln Center (Mon) (799 9595).
Musical Elements conducted by Daniel Asia with Jane Manning (soprano). Carter, Weir, Asia, Torke. Kaufmann Hall, 1395 Lexington Av (Tue) (427 6000).
New York Philharmonic conducted by Leonard Bernstein with Gideon Kremer (violin). Bernstein, Tchaikovsky. Avery Fisher Hall, Lincoln Center (Tue) (799 9595).
Music Today conducted by Gerard Schwarz. Harbison, Maw, Part, Panufnik, Mayer. Merkin Concert Hall (Tue) (362 6719).
Heinrich Schiff (cello). Bach, Schnittke, Schubert, Martinu. Kaufmann Hall, 1395 Lexington Av. (Wed) (427 6000).
New York Philharmonic conducted by Zubin Mehta with Krystian Zimerman (piano). Mendelssohn, Lutowslawski. Avery Fisher Hall, Lincoln Center (Thur) (799 9595).
Cleveland Quartet, with Andre-Michel Schub (piano). Bartok programme. Rogers Auditorium, Metropolitan Museum of Art (Thur) (570 3949).
David Jolley (french horn). Schubert, Poulenc. Kaufmann Hall, 1395 Lexington Av (Thur) (427 6000).

Washington

Guarneri String Quartet. Mozart, Barber, Schubert. Kennedy Center Concert Hall (Tue) (254 3776).
Rudolf Serkin (piano). Schubert. Kennedy Center Concert Hall (Wed) (254 3776).
National Symphony Orchestra conducted by Gerd Albrecht. Stravinsky, Schumann. Kennedy Center Concert Hall (Thur) (254 3776).

Chicago

Virtuosi di Landolfi. Bruch, Clarke, Sen, Si-Di, Martinu, Uhl. Orchestra Hall (Mon) (435 8122).
San Francisco Symphony Orchestra conducted by Herbert Blomstedt. Mozart, Lindholm, Tchaikovsky. Orchestra Hall (Wed) (435 8122).

Tokyo

Yomiuri Nippon Symphony Orchestra conducted by Kurt Masur. Brahms. Suntory Hall (Mon) (270 6191).
Philharmonische Streichersolisten, Berlin. Bach. Casals Hall (Mon) (449 8451).
Shinsei Nihon Symphony Orchestra conducted by Makoto Kokubu, with Andrei Diev (piano). Tchaikovsky, Wagner, Strauss. Tokyo Bunka Kaikan (Tues) (985 4836).
Salzburg Mozarteum Orchestra with Jean Pierre Ramphal (flute). Mozart, Bizet. Suntory Hall (Wed) (496 0959).
Stuttgart Philharmonic Orchestra and Chorus conducted by Wolf-Dieter Hauschild. Beethoven. Suntory Hall (Thurs) (265 6361).
NHK Symphony Orchestra conducted by Marek Janowski with Barry Douglas (piano). Penderecki, Prokofiev, Shostakovich. (Thurs) NHK Hall (465 1780).

SALEROOM

Picasso threatens record

The headlines of the week will be seized by Christie's Impressionist and modern sale this evening, when Picasso's "Acrobate et jeune Arlequin" should sell for over £15m, making it the most expensive Picasso ever, and perhaps the most costly work of art sold in the UK, and, in a more muted form at Sotheby's tomorrow night, when important works by Monet, Gauguin, and Cezanne come under the hammer.

But true connoisseurs will be competing for works from the collection of the late Douglas Cooper at Christie's on Wednesday. Cooper was one of the great collectors of the 20th century. His great love was Cubism and from the 1920s he bought many paintings direct from the artists who were his friends. He was a neighbour of Picasso in the South of France and his castle there was stacked with the art of Braque, Leger, Klee, Miro, and Gris, as well as Picasso.

The bulk of Cooper's collection is to be kept intact but drawings and sculpture, prints and posters by these artists and more are to be offered, with estimates ranging from under £100 to £300,000 – for a Picasso 1914 watercolour still life, which shows him at his happiest and most lyrical.

The best way to boost an artist's price in the saleroom is to publish an authoritative book, or arrange an exhibition in a prestigious gallery. Henry Moore and David Hockney should do well this week on the back of shows at the Royal Academy and the Tate.

An auction record for Moore was set in New York earlier this month – just over $2m, and he is freely available at Sotheby's and Christie's this week. Tomorrow Christie's is offering twelve of his watercolours and drawings sold by the family trust of Lord Walston, with estimates ranging up to £70,000, while "A neat lawn", a 1967 Californian acrylic by Hockney should set an auction record for him, somewhere in excess of £400,000.

Anyone (which means most people) depressed by the prices paid for the best modern art at auction should go along to the Print Fair at the Royal Academy next week end. It opens on Friday and offers over 5,000 prints, from Old Masters to the work of leading contemporary artists. Prices will range from as little as £50 to £100,000, and if you fail to buy the big Hockney painting at Sotheby's you get the chance to acquire a very rare 1973 lithograph by Hockney of "Celia smoking" for a much more modest sum.

Antony Thorncroft

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantimo, London PS4. Telex: 8954871
Telephone: 01-248 8000

Monday November 28 1988

The Soviet Disunion

TODAY IN Moscow, President Mikhail Gorbachev faces one of his most difficult balancing exercises yet. He has to balance the risk of alienating those parts of the Soviet Union that have taken his call for mass political participation at face value, against the risk of provoking a backlash of great-Russian nationalism, or plain old orthodox communist authoritarianism, by appearing to tolerate the disintegration of the Soviet Union itself.

A plenary meeting of the Central Committee of the Communist Party of the Soviet Union will finalise, in private, the amendments to the Soviet constitution to be discussed in public tomorrow by the Supreme Soviet. The object of these reforms is to implement the decisions taken at the party conference in June to introduce more genuine democracy by providing for contested elections at all levels and disentangling the party machinery from that of the state. But they have become the focus of intense nationalist agitation in the three Baltic republics and in two of the three Transcaucasian ones.

The nationalists have attacked the proposals, at least in their initial form, as an attempt by Moscow to assert Russian control over the affairs of the non-Russian republics. That is probably a misreading, but clearly the proposals do fall short of the very sweeping demands for national autonomy which are now being voiced. In particular they assert the "exclusive prerogative" of the new all-Union Congress of Deputies to decide such issues as the "composition" of the Soviet Union and its internal and external frontiers, thereby apparently contradicting the right of the republics "freely to secede".

Soviet constitution

Many people in the West will be surprised to learn that this right has figured in the Soviet constitution ever since the days of Lenin. Clearly it was fictional so long as all the republics were run by the same highly centralised Communist Party with its secretariat and politburo in Moscow. It is less self-evidently so now that the party claims to be loosening its grip on the state, and is in fact *losing* its grip on civil society, especially among the non-Russian nationalities. Both in the Baltic and in the Caucasus this year, local party leaders have clearly been following rather than leading popular movements, in which nationalism has been the driving force. It is no longer quite unimaginable that one or other of the republics, even under nominal Communist leadership, might one day try to exercise that right "freely to secede".

Small nations

Few if any of those who are now criticising the constitutional draft can really expect it will come to that. Most of them know that, as an Estonian activist put it a year ago, "great objects have a magnetic force", and small nations in the immediate vicinity of a power as large and yet defensive as Russia are condemned at best to limited independence, however good their theoretical claim to self-determination. The independence enjoyed by the Baltic states between 1918 and 1939 was something of a historical fluke, resulting from the temporary eclipse of Russian power; and the Armenians, though bitterly frustrated by Moscow's refusal to rule in their favour on the Karabakh issue, are dependent on central Soviet power to defend them against Azerbaijani violence.

Although it is tempting for Western powers, especially European ones, to rub their hands at the prospect of "the break-up of the Russia empire", it is worth remembering that the destruction of some neighbouring empires, such as the Hapsburg and the Ottoman, has not been followed by unalloyed peace and prosperity for their component nationalities. Certainly the Russians would be most unlikely to allow theirs to break up without a very nasty fight, in which Mr Gorbachev and his perestroika would probably be the first casualties. A much better prospect for both Russians and non-Russians would be the transformation of the Soviet Union as a whole into a freer and more humane society. That is going to be extremely difficult, and certainly impossible unless a remarkable degree of prudence and restraint is displayed both by the central government and by the leaders of the non-Russian peoples.

Question of telephones

IN THE NEXT few days, Professor Bryan Carsberg, the UK telecommunications industry regulator, will be faced with one of the trickiest decisions of his stint in office. His recommendation to the Government on the appropriate structure for the new telepoint mobile cordless telephone service will be a vital element in shaping an infant industry where Britain, for once, has made the running. If he gets it right, UK companies could lead the way into a world where we shall eventually carry our telephones with us as naturally as we wear a wristwatch.

Telepoint has become possible because advances in micro chip design have led to the development of pocket-sized telephone handsets which include radio transmitters. Calls will be made by connecting into the public telephone network via a large number of "telepoints" – small radio receivers fitted in obvious places such as railway stations or large stores, and capable of receiving a signal from up to 200 metres.

This system clearly has elements in common with the services run by the cellular car telephone companies. But telepoint is in some ways quite different. For technical reasons to do with the use of the radio frequencies, it will be practicable to licence a number of operators – the Government has suggested between two and four as against two on the cellular system.

Number of licencees

These technical factors point to the development of a relatively cheap service, in which a broad competitive base can help drive down prices. But how many competitors should there be? And will it help or hinder market growth if British Telecom is one of them?

Prof Carsberg has been receiving a great deal of advice from industry on both of these issues, much of it on the lines that it would be prudent to limit the number of licencees to two companies, while making sure that BT was not one of them. But it is not clear that either of these suggestions would favour expansion of the telepoint system for mass consumption. The case for limiting competition to two licencees, for example, rests on the view that the market will not support more, surely something that cannot be proved until tested.

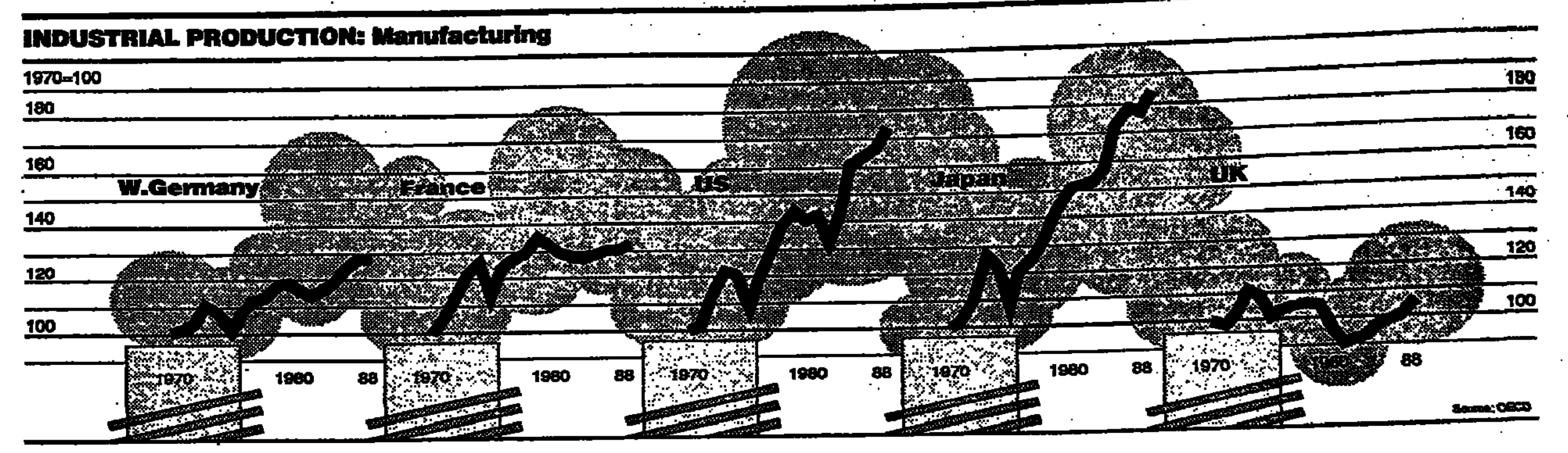
Cross subsidies

The argument against BT is just as tenuous. Some potential competitors have suggested that BT's overwhelming dominance of the UK telephone market will allow it to compete unfairly by cross-subsidising its telepoint services; others contend, on the other hand, that it will not want to undermine its lucrative cellular car phone business, or its callboxes, by promoting telepoint too assiduously; and there is also a feeling that BT will get an involuntary bite of the telepoint cherry anyway, since the new operators will have to use its fixed lines for the non-radio part of their traffic.

All these points miss the main issue. The important thing for the UK consumer and British industry is to have an effective service that is run by freely competing companies. It is perfectly possible, as shown in the cellular telephone sector, to create reasonable barriers to cross-subsidisation. One way is to tell BT to set up a free-standing subsidiary for the service; another is to make it take strong partners with an interest in maximising their returns; and the addition of a strong competitive structure will provide a further check not available in the duopoly cellular market.

Cordless telephones present an attractive market opportunity. Prof Carsberg needs to ensure both that the new market is highly competitive, with operators under strong pressure to reduce costs and improve service, and that this extension of the telephone business acts as a stimulus to established operators in other sectors.

FT Industrial Staff examine the depth of recovery in British manufacturing



Assessing the cost of the cure

British manufacturing industry is going through its most benign period of sustained growth in the past decade. Production is expanding at a rate of 7 per cent a year, markets are strong, labour relations calm, and investment rising by leaps and bounds. For those who take a bullish view of Britain it is not hard to see a manufacturing renaissance just around the corner.

Yet how deeply-rooted is this recovery? Is it simply a response to a cyclical upswing in world markets which is also benefiting manufacturers throughout Western Europe, the US and Japan? Or has something more fundamental occurred in Britain's industrial structure?

In the last few weeks, Financial Times journalists have interviewed around 30 of the UK's largest exporting manufacturers, both indigenous and foreign-owned. Their answers reveal an industrial sector which, with a few exceptions, is basking in a period of expansion, but not bursting at the seams; manufacturers who are reasonably confident about their own businesses, but not unduly optimistic about future trends or Britain's overall industrial position; and companies keen to invest in very specific projects, but determined to avoid head-on confrontation with overseas competitors in the more internationally competitive product areas. Several common themes emerged.

● Capital investment: More than half the manufacturers questioned reported a significant upswing in capital spending during the current year, a response supporting national figures which indicate a 16 per cent increase in expenditure on plant and equipment. Very little of this is going on new capacity in terms of more factories or extra production lines, instead it is being focused on new equipment to reduce costs.

● Capacity: Despite the strength of domestic demand and the big surge in imports, most companies say they are not losing sales through shortage of capacity. There are several reasons for this. One is that British companies no longer make many of the products necessary to beat back imports in some sectors. Another is that UK manufacturers have become extremely cautious about expansion following the 1981 recession. Finally, the trend towards specialisation means there is less emphasis on volume *per se*, and therefore less pressure on factory space.

For example, BTR, Britain's leading industrial conglomerate, says its policy in the 1980s has been dictated by a drive away from commodity products and towards high value-added items. "We have decided to place less emphasis on volume," says Mr Chris Bull, finance director. "We tell our managers to price their business realistically, and if they lose it to replace it with higher margin products."

● Demand: While economic conditions have been generally buoyant this year, the climate varies from industry to industry. Tobacco manufacturers, for example, are facing steadily falling UK sales and are shifting their sights to Third World markets. Demand is stagnant in the drinks industry which is one explanation for the spate of takeovers and attempts to streamline branding – as Guinness is doing in whisky. Textile companies are in a worse plight, having run into a steep sales decline caused by foreign competition.

Yet for a broad swathe of companies in chemicals, pharmaceuticals, general engineering, aerospace and electronics, market conditions are excellent. Few of these companies have seen any sign of a setback after the rise in interest rates.

● International competitiveness: By and large, manufacturers claim to be holding their own in export markets. There are grumbles about the dollar, and there will be cries of pain if the US currency slips much further. But the last few years of heavy investment by British companies in the US should help reduce the impact of a weaker dollar by putting costs on to a dollar base. Generally lower financial gearing now makes bigger companies less vulnerable to rising interest rates but some small and medium-sized businesses not included in the survey are known to be worried about the impact of this year's increases.

The import picture is more complex. In general, British manufacturers have not benefited as much as might have been expected from the surge in demand this year. Imports have flooded in to fill the gap. But when asked about the impact of imports on their markets, most of the UK companies claimed they were not losing market share any more.

This underscores the fact that the biggest British manufacturers have dropped out of several of the areas where importers expended strongly. Two very different examples are production machinery, where UK companies have no choice but to import many types of equipment, and small screen televisions, a market which has raced ahead this year on imports from Hong Kong and China. In activities where they have chosen to concentrate, UK producers say they are defending their position but few of them claim to be winning back ground lost to imports.

● Labour market: Despite persistent talk of acute labour shortages earlier this year, few companies appear embarrassed by the problem. Exceptions to this are computer and software specialists south of the Midlands and, to some extent, process engineers. In general, companies do not share the Government's worry about labour costs. Some are hoping to hold wage increases next year at around 5 per cent, while others see them edging up as high as 9 per cent.

In the information technology sector, skill shortages are definitely beginning to act as a constraint on expansion. This is a twofold problem. Big companies need electronics engineers and software specialists to help modernise their operations; and these sort of people are the life-blood of the specialist electronics companies.

Companies are virtually unanimous in believing that there is plenty of scope for greater productivity gains

Many executives see no short-term resolution of this particular crisis in a manufacturing economy where information technology is becoming increasingly prevalent. "It is alarming when you look at the squeeze on the universities and the number of schools that no longer have competent mathematics and science teachers," says Mr Alan Shepherd, deputy managing director of electronics group, Ferranti International Signals.

● Productivity: Companies are virtually unanimous in the conviction that there is plenty of scope for further productivity improvements. The jump in productivity achieved by the labour shake-out following the 1981 recession was a one-time gain that put industry on a new footing, they say. But productivity levels still lag well behind the best international levels in several sectors. Most companies are aiming to catch up by steady incremental gains.

● Component sourcing: This is one of the trickiest issues to assess. Companies tend to be sensitive about their component imports and it is difficult to trace the origin of products. The overall impression given by groups in the engineering, metals-forming and electrical industries, however, is that they make less of their final product in Britain today than a decade ago. This trend is partly due to increased availability of cheap components from the Far East. Many large companies are also rationalising their production, importing components if it is cheaper to make them overseas.

Cummins, the US diesel engine company, now brings in from the US the main core of some of its UK-assembled engines. Caterpillar, the earth-moving group, has closed two plants in Britain, sourcing some of those products from France and Belgium. Zafar Kahn, business development manager for APV, the processing equipment maker, says it is sourcing more components for its printing machinery from the US as a currency hedge. Many UK manufacturers have deliberately dropped out of certain component products where imports are now the only source. ICL's decision to base its computers on integrated circuits provided by Fujitsu of Japan is one example.

An element of the productivity advances registered in recent years by British industry is also due to this increased component outsourcing. This is partly because outsourcing allows dramatic increases in output per employee, and partly because the process puts manufacturing in the hands of more specialised producers. West Germany and almost certainly Italy have kept more of their indigenous component supply industry intact. Moreover, many of the production facilities built in the UK in the 1980s are owned by foreign companies. While these groups might source many of their components in the UK, many critical parts are brought in from those companies' home-based manufacturing plants.

One effect of these changes is to strengthen the link between final output and imports: UK-based producers can only make more by importing more, hence a rise in output automatically leads to a greater import surge than in the past. This brings us back to the question of the kind of recovery which British manufacturing is undergoing. There is little doubt about the cyclical nature of this upswing, which is common to most of the industrialised world. It is also true, however, that the structure and attitudes of British manufacturing companies have changed so much in the last eight years that their response to the jump in demand has been far different from that of the 1960s and 1970s.

At that time, manufacturers would have rushed out into the labour market, extended their production lines and pumped out more product. But during the slump and restructuring of the 1980s, UK producers have become exceedingly risk-averse. They are now more cautious about expansion, more focused on specific markets, and interested more in the value of their products than in volume. In the last few years, they have been searching around for niche areas where they can achieve high returns while reducing dependence on or escaping from commodity-type products.

The longer-term question is whether these strategies will provide a sufficiently strong base for the country's manufacturing economy. Britain's abdication from more traditional areas of production is illustrated by its consumption of crude steel and machine tools. Crude steel use is down by 23 per cent (a similar fall to France) in the last 10 years; the drop in West Germany, which still consumes twice as much steel as either France or the UK, has been only 13 per cent. Italy's crude steel consumption (23m tonnes against Britain's 15m) has risen by almost a fifth in the same period. West Germany still installs each year more than three times as many machine tools as the UK, measured in dollar sales.

It is sometimes argued that differences like these do not matter in an era when mobility of capital and technology mean that foreign companies will set up shop in Britain. Yet many executives argue that the process of manufacturing disinvestment has gone too far and too fast in Britain.

The savage cuts and lack of investment in the early 1980s, they say, has left Britain at a severe disadvantage in manufactured goods over the medium term. Traditional sectors that have been lost will be hard to regain. Outside the pharmaceuticals sector, where companies such as Glaxo and Beecham have doubled output in the 1980s, there are few signs of new specialities arising to fill the gap.

How, they ask, will Britain eventually balance its trade when North Sea oil fields run dry? "We have lost capacity and expertise in so many sectors that I look to the future with great apprehension," was the way one senior industrialist put it.

OBSERVER

Doubts about the Pentagon

■ Rarely has the appointment of a new Defence Secretary in Washington been accompanied by as much controversy as that surrounding the question of whether John Tower, the pint-sized 63-year-old former Texas Senator should get the job.

Months before George Bush had even won the election, Tower's name was on the top of most people's lists as the likely successor to Frank Carlucci, an incumbent whose tough budget-trimming approach to the Pentagon, has won him widespread respect and begun to restore a sense of political reality to a Government department which under his predecessor, Caspar Weinberger, had become intoxicated with itsfreedom to spend untold billions on new weapons.

The bill for this spending spree is now coming due. Carlucci's successor is facing the prospect of having to trim Pentagon spending plans by $2-300 bn over the next five years even to reach Bush's goal of allowing the defence budget to grow no faster than the rate of inflation. Should Congress insist on a continuation of the decline in real defence spending that has taken place since 1986, the cuts will have to be even bigger.

The key question President-elect Bush has had to answer in choosing his Defence Secretary therefore has been who is the man who can most effectively meet the challenge of controlling the budget. Tower's critics have argued that the conservative Texan who used to chair the Senate Armed Services Committee is too much a part of the defence establishment, too close to the military and the defence contracting industry, to be left in charge of this politically sensitive task. Some have backed up their critiques by privately slinging mud at a man whose marriage came to a bitter end not too long ago, and by suggesting that he is not, by nature, the team player that Bush should have in the job.

Tower's supporters have insisted that his years of experience on Capitol Hill – he was first elected to the Senate at the age of 31 – and his detailed knowledge of the military make him an ideal choice for a job will require not just a good manager, but also a man who can help develop a coherent military strategy around which to build the new scaled–back US force structure.

Doing this will involve working closely with James Baker,who will be Secretary of State,and Bush as the Administration negotiates with the Congress, the Western allies, and of course the Soviet Union, on strategic issues.

The compromise which is being negotiated would have Tower, an old Texas friend of Bush, appointed Defence Secretary, but only if he accepts the appointees Bush wants as Deputy Defence Secretary and Under Secretary of Defence (Acquisition), the men whose job it will be to shake up the Pentagon.

The betting in Washington remains that in spite of the controversy Bush, who prizes loyalty to friends, will finally give Tower the nod. But the confidence with which such predictions are being made is not what it was a couple of weeks ago.

Chun's exile

■ Chun Doo Hwan, the disgraced former President of south Korea who went into internal exile last week, could hardly have chosen a worse time to depart from his spacious Seoul mansion.

We're hoping to sell the spire in order to save it."

The former dictator and his wife are staying at a remote Buddhist temple in the Sorak mountain range in the north-east of Korea, rising at 4am to pray and study religious texts.Although the area contains some of the country's most beautiful scenery, the Chun's are unlikely to attract tourists if only because the temperature in the mountains is now around minus 10 degrees centigrade.

The couple's modest six sq m room will be comfortable to sleep in because of its traditional underfloor heating, but monks yesterday sealed the windows with plastic sheets to keep out snow flurries and draughts from the Siberian wind.

More than 200 police have been bussed in to protect the couple from student demonstrators bent on continuing their protests against his misdeeds. The couple's decision to stay at the monastery has already caused protests by students at Seoul's Buddhist university and by monks at some temples arguing that their presence casts a slur on religion.

Five fire extinguishers have been placed in the Chun's room in case there is any repetition of the arson attack on the dictator's childhood home in another part of the country a month ago.

The Chun's are expected to remain at the temple for at least another week, but their future plans are unknown. The former president has refused adamantly to leave South Korea and may have to be taken under temporary protection by the army.

Society shift

■ It is not often in the sedate and well-ordered world of the building societies that a highly-regarded building society chief moves on to run a rival society only a fifth of its size. That is what Robert Linden has done by switching from Bristol & West (number 11 in the building societies' pecking order) to North of England (Number 29).

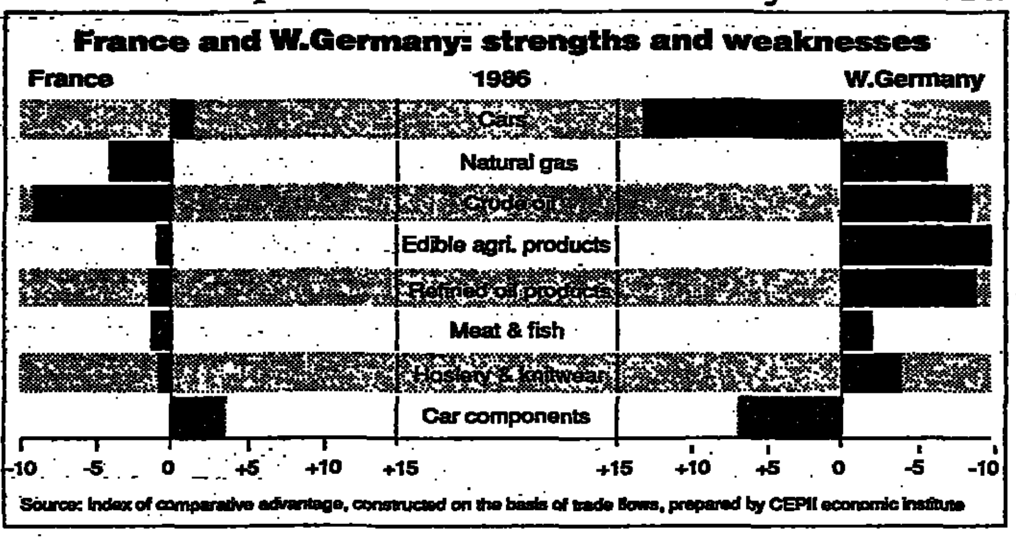
Linden, who takes over as head of the North of England in April, says he parted from Bristol & West "on the best of terms". However, at Bristol & West Linden was never on the Board, even though his head of finance – who is the son of Andrew Breach, the Society's powerful former chairman - was. At North of England, Linden is already a director even before taking the helm. Meanwhile Brian Sims, the Society's Secretary, has taken over as acting general manager of Bristol & West. A permanent replacement for Linden is not expected to emerge until the New Year.

Poor fathers

■ "What is Father's Day?" a child asked. The answer was that it is a cheaper version of Mother's Day.

Ian Davidson examines the implications of a recent study of the French trade balance

Condemned by the failure to specialise



Source: Index of comparative advantage, constructed on the basis of trade flows, prepared by CEPII economic institute

The French are obsessed by the prospect of a single European market after 1992, which seems to fill them with dread. They describe it as a "challenge", but they appear to regard it as an awful encounter with destiny, in which France is bound to come off worst.

French anxiety is mainly focused on the fiscal implications of the new Europe. A market without frontier controls will require the harmonisation of value-added taxes in Europe, with painful budgetary consequences for countries (like France) with high VAT rates. A market without exchange controls on the movement of capital will create a major risk of capital flight for countries (like France) with high taxes on savings.

In fact, French anxiety about 1993 and beyond should perhaps be more legitimately targeted on the existing evidence of weaknesses in French industry's ability to compete. This evidence has become clear in the past two years, and has been characterised by the Finance Ministry as "the fragility of the foreign trade account, marked by the collapse of the industrial trade balance and the loss of world market share."

Last year's trade deficit of $9.2bn (£5.02bn) is expected to worsen to $10½bn this year, according to the OECD, and reach $11¾bn in 1989.

Particularly worrying to the French is the weakness of the industrial component of the trade balance, which has dropped from a surplus of FF 7bn per month in 1985, to a deficit of FF 3bn per month in the first seven months of 1988. The most recent figures suggest some improvement, and it is possible that the loss of foreign market share has been slowed down, or even halted. Yet there is a fundamental problem which will only be put right, in the Ministry's words, "by an improvement of company competitivity in all its aspects: price, quality and industrial structure."

From time to time, the foreign exchange markets appear to conclude that the logic of the figures ought to be pointing towards a realignment inside the European Monetary System, and speculate accordingly against the franc. The French Government has set its face against any facile way out of this sort, and in any case French economists have concluded that the problem is not a deterioration of relative cost structures. In relation to West Germany, always the benchmark for French comparisons, the recent movement of costs appears to have been favourable to France, and over a longer period relative costs have been kept in line by previous realignments. Therefore, the problem must lie elsewhere.

A year ago a seminal article in a review of the National Statistical Institute argued that the weakness of French industry and the cause of its loss of world market share, was a lack of specialisation. This "de-specialisation" is clear in pharmaceuticals, tyres and cars, and even clearer in clothing, leatherwork and electronics.

This case has been reinforced by a new study carried out by Gerard Lafay of the CEPII economic institute for the national Planning Commission*. The deterioration of the French trade balance, he says, is partly explained by geographic factors: at the beginning of this decade, French exporters showed above-average interest in Africa, the Gulf and Latin America, and these are no longer such buoyant markets. But the main problem is French industry's general lack of specialisation and comparative advantage.

By sub-dividing French trade flows into the constituent parts of industrial sectors, and by weighting the resultant balances in relation to the overall totals, Mr Lafay comes up with a hierarchy of indicators of comparative advantage both for France and for West Germany. The resulting picture suggests that France's exporting industries suffer from major structural weaknesses compared with West Germany.

- France has comparative advantage in far fewer industries than West Germany.
- The degree of comparative advantage even in the most competitive French sectors is much less marked than in the most competitive West German sectors, while the degree of comparative *disadvantage* is also less marked in the least competitive French sectors than in the least competitive West German sectors.
- France's major comparative advantages are in simple products like cereals or traditional sectors like drinks, ahead of its most competitive industrial sectors (aeronautics and vehicle components).
- France's modest comparative advantages in industry proper are scattered in different sectors and at different levels of the industrial process, from primary products to consumer goods, whereas West Germany's comparative advantages are strongly concentrated both by sector (mechanical engineering and vehicles) and by industrial level (intermediate and investment goods).

"When they try to promote the image of our country abroad," says Mr Lafay, "French leaders, public or private, try to make us forget the traditional picture of a country which exports fine wines, liqueurs, cognacs and perfumes, and even more recently wheat. On the contrary, they promote the image of the world's fourth exporter, the flattering results obtained with high-technology products such as Ariane, Airbus, helicopters, the TGV express train, the Minitel, digital telephone switchboards and so on . . .

"If one sticks strictly to the export figures, they are right. But when one looks at the import figures, to rank the balance of the flows, the classical image returns inevitably to the foreground. For the real comparative advantages of the French economy lie with the products which constitute the trade mark of France in the eyes of most foreigners."

Mr Lafay asks how this can be explained. He says it is true that, in many fields, French engineers can compete with the best and are often at the forefront of technology. But very often commercial results do not match the ambitions of the engineers. When products reach the international market, delays are too long, runs too short and costs too high. There are exceptions in the armaments industry (which has known its hour of glory, but which is difficult to isolate in the trade figures, says Mr Lafay) and civil aerospace, where European co-operation is bringing its fruits. But the comparative advantages revealed by international trade remain very modest for French industry in products of advanced technology.

"Though France is the fourth exporter in the world, it is also the third importer. In the absence of decisive breakthroughs in exported products, the French economy is condemned to import, in every case, a similar quantity of foreign products . . . France does not suffer from poor specialisation, it suffers from an almost complete absence of specialisation."

This state of affairs, according to the CEPII study, is not a *recent deterioration*, but simply a reversion to an underlying long-term pattern. For a while it was masked by the success of certain sectors, such as automobiles, or by the strength of certain geographic markets such as the Middle East or Latin America, which have again been weakened by the decline of the oil price or the debt crisis.

But Mr Lafay implies that this lack of specialisation is also due to the country's long history of state interventionism and protectionism.

"On a case by case basis, there are always good reasons for protection, either to face a brutal deficit (the oil shock), or to avoid loss of jobs. But when one compares with hindsight the sums devoted by the State respectively to declining industries (steel, shipbuilding) and to sectors of the future (electronics), one can understand the negative role played by the protection of French industry."

The operational problem with Mr Lafay's conclusions is knowing what to do about them. Over the next four years, the French Government can negotiate to optimise what it sees as French interests in the harmonisation of VAT rates or the control of tax havens. But if, for whatever reason, France is at a commercial disadvantage because of the underlying structure of its industry, that is a disadvantage which the Government will be hard put *to rectify, especially within* four years.

* *La Spécialisation Internationale de l'Industrie Française, Gerard Lafay and Loukas Stemitsiotis, CEPII, Université de Paris I, Commissariat Général du Plan*

The Open University

Child of the sixties that stood the test of time

By Michael Prowse

"BLITHERING NONSENSE", said a senior Conservative spokesman in the late 1960s. He was refering to the UK Labour Party's plans for a "university of the air". The notion that correspondence texts and radio and television broadcasts could provide an education to degree level for adults with no formal qualifications was widely ridiculed.

Yet the Open University, as it became known, has proved extraordinarily successful. It now accounts for about 27 per cent of the total student intake of British universities and *produces nearly 1 in 10 of all graduates*. It also boasts a thriving business school and many short courses and study packs designed to facilitate "personal and professional development".

The OU's importance has even been recognised by Mr Kenneth Baker, the Education Secretary. Earlier this month, he announced a sizeable increase in its funds – nearly £13m over three years against an annual budget of about £90m. The university, having suffered successive reductions in real funding, had been on the brink of deep cuts in student courses.

Mr Baker's belated vote of confidence is not wholly surprising. Universities, the Government is arguing, should offer more value-for-money, widen access and become more responsive to the needs of their customers. The OU has been outperforming the rest of the higher education sector on all three fronts for two decades.

Thanks to scale economies in distance learning, costs per undergraduate are less than 40 per cent of those at a conventional university. OU students, moreover, have never qualified for a state grant and have always had to contribute towards the cost of tuition.

The OU's record on access, while open to criticism, is outstanding by the standards of other universities. About half of its undergraduates have "blue collar" fathers compared with only one in five elsewhere. It also attracts an unusually high proportion of female students. And it makes special efforts to meet the needs of groups such as the disabled and prisoners.

Its chief failing, despite the policy of open entry, is in attracting the poorly educated. In 1987, only 12 per cent of its undergraduates had less than the equivalent of two A levels (the traditional university entry qualification); and only 7 per cent had no qualifications at all. "We have broadened access," says Professor Andy Blowers, the deputy vice chancellor for degree studies, "but we have not broken down barriers."

One difficulty is that the unqualified, despite carefully structured foundation courses, are much less likely to complete an OU degree than those with higher qualifications. This only underlines the folly of a UK schools policy which allows 55 per cent of children to leave at 16, many with no formal record of achievement. Something akin to an Open Sixth Form is clearly required.

The OU's ability to respond to the needs of *customers is best reflected in the very rapid*

The OU's record on access is outstanding by the standards of other universities

expansion of its continuing eduction programmes. The deputy vice chancellor in charge, Mr Michael Richardson, would not be out of place in a corporate boardroom. He says bluntly that the "needs of client groups", rather than the interests or wishes of academics, determine what is offered. Everything has to be self-financing because there is no government block grant.

His menu of courses is impressive. Scientists in industry, for example, can update their knowledge of robotics or software engineering. Teachers can retrain in shortage subjects. Housewives can mug up on child psychology or study the novels of James Joyce. The emphasis throughout is on flexibility.

Recognising the need for more management education, Mr Richardson was instrumental in establishing the Open Business School in 1983. This year it accepted 9,500 students – a 10-fold increase in five years. Early in 1989 the first cohort of 770 MBA students begin their studies. Over time the OU seems likely to claim as large a share of the MBA market as it already enjoys in undergraduate studies. The low cost and convenience of its courses are particularly attractive for small and medium-sized companies and for those who cannot find sponsors.

Dr John Horlock, the OU's vice chancellor, takes continuing education very seriously. Universities, he says, have traditionally recognised only two obligations: teaching and research/scholarship. He thinks a third duty – provision for the continuing educational needs of adults – should be imposed on them. The notion that higher education must be absorbed in one gulp between the ages of 18 and 21 certainly looks dated now.

So does the narrow specialism inherent in the single honours *degrees on offer at most* conventional universities. The OU from the outset was determined to provide a broad and balanced education. It assembled teams of academics from different disciplines to design brand new courses. In the arts foundation course, for example, students study history, literature, music, art history and philosophy, and then bring all five subjects together in an interdisciplinary analysis of Victorian culture and society.

The interdisciplinary approach does not suit everybody. It is impossible, for example, to do a pure economics degree at the OU. But arguably this is all to the good: what use is an abstract knowledge of economics unless it is embedded in an understanding of other disciplines such as politics and sociology?

The OU is aware that it is about to face more intense competition. The shrinking pool of youngsters will force other universities to woo mature adults. They may even experiment with distance learning. Technological progress – interactive computer terminals and the more widespread availability of video cassettes – is increasing the attractions of home-based study. But whatever happens, it is good to know that at least one product of 1960s socialism has a future in the 1990s.

LETTERS

'Planning benefit'

From Mr Pete Broadbent.

Sir, My attention has been drawn to a statement in Paul Cheeseright's article ("What Prince Charles didn't say," November 5) that "the London Borough of Islington will facilitate planning consent for cash." This comes close to suggesting that the borough is engaging in an illegal practice, which is definitely *not* the case.

The Islington Development Plan (1986 First Review), tested at two public inquiries, states that the council will seek to achieve planning benefits from office developments within the framework set out in the existing plan (the Greater London Development Plan), appropriate to Islington's local needs.

The recent amendment to the Use Classes Order which puts light industry in the same class as offices (class B1) has encouraged a rash of speculative office development in the city fringe area of Finsbury. Previous practice would have been to require a proportion of the new floorspace created to be allocated to industrial use, or to provide local community benefit.

The advent of the new class B1 has meant that developers have been unable or unwilling to provide this on site, and the borough has instead made cash agreements to provide the benefit – say, workshops space – elsewhere in the borough.

No development which is unacceptable in planning terms can ever be rendered acceptable by such a payment, which is tied into a separate agreement (under Section 52 of the Town and Country Planning Acts).

It is not our practice to give "free rein" to developers if they give us "something in return", though we do believe that developers who are *benefiting from being located* in such a progressive and attractive borough as Islington should be encouraged, through the perfectly legal planning benefit system, to put something back into the borough.

That is one of the few socialist principles still in the Town and Country Planning Acts to which a borough such as Islington can still have recourse.

Pete Broadbent,
Development and Planning Committee,
London Borough of Islington

The BP affair

From Mr John F. Chown.

Sir, David Lascelles's account of the *BP affair* (November 14, 16, 18) is particularly fascinating for those of us who watched the story unfold from a limited specialist point of view. May I add some comments, which may have some lessons for the future operation of the new issue market?

Given the information available on Impact Day, the UK sub-underwriters were overpaid for their services by a factor of four. With hindsight this may seem paradoxical, but the implications are interesting.

On that day, the share price was 352. The subscription price, nominally 330, was actually only 310 if we discount for delayed settlement of the instalments.

The correct measure of the risk would be therefore the cost of an out of the money put option at 310 for a period of two weeks. There was an active traded options market, but the nearest date was too short.

Based on the implied volatilities, the option price would have been about 0.6 pence for the two weeks covered by the underwriting, compared with an underwriting commission of 3.3 pence.

Obviously the traded options market in BP shares could not, in the normal way, have digested transactions of anything like this size. Conceptually, it would have been possible to "auction" the underwriting risk through this market: keen buyers of financial services, who believe in the virtues of competition, might well consider this point in future new issues.

Sub-underwriting is traditionally passed on to pension funds, insurance companies and other institutional investors acting *for a broad section* of the community. If it had all been passed on in this way, it would have increased the exposure of these institutions to the Crash by only 1 per cent. Pressure to pull the issue did not come from these quarters.

Some – probably most – was passed on. (Three of the 17 principal underwriters passed on all the risk). However, jammy sub-underwriting (as this was perceived to be) tends to stick to the fingers of the intermediaries who keep some of it in- (or very close to-) house.

These could still have hedged their risk and made a profit. If they had feared (correctly, in the event) that their main risk was a general fall in the market rather than specific bad news in the oil market or for BP, they were at risk if FTSE (the Financial Times/Stock Exchange index) fell from 2326 to 2180. A November put option at 2200, giving more protection than was needed, cost 13 pence, equivalent to 1.8 pence per share underwritten, leaving half the underwriting commission as clear, hedged profit. In the event, the option could have been sold on October 20 for 250 pence.

It was the over-committed and optimistic UK intermediaries who lost money – and who could be identified from their squeals. They could have passed the risk on, but chose not to do so. Foreign underwriters were in a different position: differences in market practice suggest that it is inappropriate to allot a specific foreign portion to such offerings.

John Chown,
J.F. Chown & Co,
51 Lafone Street, SE1

Comparison seems curious

From Mr R. Hunter-Gordon.

Sir, It is curious that Derek Alun-Jones seeks to compare defence, a "$450bn market", against consumer TV, a "$2bn market" (November 4).

Surely the defence industry supplies many different products and services, while consumer TV is one particular product within the consumer electronics industry?

I note that MEI (Matsushita Electric Industrial) alone had sales of video equipment which amounted to $7bn (year end March 1988, parent basis). The defence industry may indeed be ex-growth, but it seems a reasonable contention that the market for consumer TV (and associated products) is neither as small nor as mature as is often assumed.

Richard Hunter-Gordon,
c/o Wardley Investment Services (HK),
12 Harcourt Road, Hong Kong.

Producers' opera preferred

From Mr Anthony Foord.

Sir, Andrew Porter, your music critic in the US, gives the game away: "Still, it is far better to be bothered and challenged than to be bored – whether by routine or by the merely modish." (November 19)

Who is bored by an imaginative but straightforward production? We, the public, seeing an opera for the first or the 50th time and just wishing for a faithful representation of what Gluck, Beethoven, Verdi, Wagner or Britten left us? Or the cynical old music critic?

We do not go to hear a symphony by Haydn, Mozart, Beethoven or Mahler in order to be "challenged". We want a musical interpretation imaginative but faithful. It is perfectly possible to produce the operatic masterpieces imaginatively but faithfully, as Sir Peter Hall has brilliantly shown us.

Is not the position simply that opera producers, like conductors, are divided into the good, bad, unreliable and indifferent?

It is up to opera managements to decide that it is we, the public, whose demands they should strive to satisfy, rather than those of the critics or the merely modish; and to engage producers who share that aim, rather than seeking to interpose their own pet interpretations between us and the composers whose operas we have gone to see and hear.

Anthony Foord,
Nettlestead High Hall,
Ipswich, Suffolk.

Brazil index

From Mr A. Twiston Davies.

Sir, Your Lex column points out (November 21) the excellent performance of the French market over 1988, and mentions that it has been "second only to Mexico among the world markets."

May I mention that the Brazilian stock market, as measured by the Sao Paulo index (dollar adjusted), has risen from 17.3 to 43.7 (by November 18), a rise of 152 per cent, and that it is currently only 6.3 per cent off its high of 47.1?

Mexico, since January 4, has shown a gain of 111.6 per cent.

Audley Twiston Davies,
Brazilian Securities (UK),
131-133 Cannon Street, EC4

FINANCIAL TIMES
Monday November 28 1988

Janet Bush on Wall Street

Directing innovations overseas

THERE has never been any doubt about the talent on Wall Street and in the US banking community to adapt to changed circumstances and conjure up innovative techniques and products to the sophisticated US market.

Once securities houses realised after the crash that commissions from simple old investment in equities were likely to be depressed for some time, they hawked around the country with ideas for mergers, takeovers and leveraged buy-outs.

They have been hugely successful in generating profits for Wall Street. As one sage remarked recently, "Once LBOs go sour, Wall Street will come up with new techniques for handling bankruptcies and earn huge fees being experts in insolvency."

Nonetheless, there comes a point when Wall Street's capacity to generate profits may run into political headwinds. Mr Jim Wright, Speaker of the House, made his contribution last Friday to calls for changes in tax laws to discourage borrowing for takeovers.

There are also natural limits to the development of increasingly complex financial products. Financing or hedging techniques become too technical for clients to stomach and derivative products become so complex that they seem to have little to do with the basic needs of the investor who has to pay for them.

It can be argued that the US financial community has come to the end of the road for developing new products.

But there is one direction for US innovation to go: overseas. There are many forces pushing the US financial community towards increasingly international products and strategies. Two key ones come to mind.

First, it may well be that US securities markets could settle into a long period in the doldrums. Even Mr Alan Greenspan, chairman of the US Federal Reserve, has suggested that capital flows to the US from abroad may not be sustained at current levels. The country's pension funds are increasingly keen to diversify their portfolios with international investments.

Second, financial markets overseas are accelerating the development of their own arsenals of futures and options contracts on the US model. This gives US money managers, investment houses and futures exchanges the opportunity to exploit arbitrage opportunities in what will be increasingly liquid overseas markets.

The 1992 dismantling of barriers in Europe has an increasing fascination for companies and financial institutions in the US and has been a key factor forcing Americans to seek new opportunities.

The need to regulate on an international basis has not escaped the Securities and Exchange Commission, the chairman of which, Mr David Ruder, has been travelling all over the world to talk to his counterparts about effective, harmonised global regulation.

The US financial community is also reacting. Two disparate examples suggest some of the ways things are changing.

The first is anecdotal and involves two accountants talking on a commuter train into Manhattan. They were discussing whether they could institute a system in which profit and loss accounts could be done in West German D-Marks and French francs as well as in dollars.

The second example is the multi-currency hedging strategy being marketed by TIMCO, part of Travellers Insurance Group. According to Mr David Dunford, TIMCO's president, the strategy has two unique characteristics.

First, it uses a blend of all three main hedging instruments – currency options, futures and forward contracts – to protect a US investor active in overseas markets.

Second, the hedge is adjusted to take into account fluctuating real returns made by the US investor in the foreign market and therefore hedges pretty exactly the investor's actual exposure to, say, the London stock market.

Figures provided by TIMCO show that an investor in overseas markets would have made a return of 23.73 per cent if currency translation costs are stripped out. In comparison, an unhedged investor would have made only 9.87 per cent, while an investor using the multi-currency protection strategy would have made 18.15 per cent. This is an example of how the skills in the US in developing sophisticated derivative products are being put to work overseas.

Israeli capitalism strives to flower

Andrew Whitley examines a project not yet quite quite kosher

"I THOUGHT I was living in Russia," says the quiet-spoken man, growing heated with indignation as he recalled how the Israeli Government had tried some years ago to make retroactive a new law governing the flower growing industry.

Authentic capitalists, who see the virtues of competition, are a rare breed in Israel. Their ethic is treated with disdain by the political and business establishment, as being inappropriate to the country's stage of development and Zionist ideology. Not only is capitalism somehow unpatriotic, it carries the added negative connotation in people's minds of being "not quite kosher".

Mr Gideon Bickel, founder and owner of Bickel Flowers, would not object to being called an arch-capitalist by his fellow Israelis. He has been called worse names than that during his 15-year fight to establish the right to grow and export flowers independently of the state system.

But that label, and the fact that he is one of the tiny handful of private farmers in the country, does not make him any less patriotic. On the contrary. The 44-year-old former paratroop commander argues fiercely that what he is doing is very much in the national interest.

"I am a Zionist. I was born here, I fought here and I want to build here," he insisted during a recent interview on his 22.5 hectare spread, 15 kilometres from Ben Gurion international airport.

Around him, workers were tending an enormous enclosure of roses, in preparation for the winter export season to western Europe.

The two-month high season which, at its peak, can earn exporters such as Bickel Flowers $99,000)a day – a single, 60-cm red rose bud will fetch $1.80 at New Covent Garden Market in London – is about to get under way. And, as usual, Israeli flowers will command a significant share of the market for a brief while.

Last season, cut flowers and decorative leaves brought Israel $131m in export earnings, mostly from EC countries. Fast-growing sector though it may be, the market's potential has barely been scratched. Holland, for example, probably makes in excess of $3.15bn for its flowers in a good year.

Nearly all Israel's flowers are grown on moshavim, small to medium-sized rural co-operatives of a few hundred families. Their marketing abroad is handled almost exclusively by Agrexco, the big state-run body which handles all non-citrus farm exports. It's a closed circle: from the grower to the exporter to the government officials who set production quotas and a maze of other agricultural guidelines.

Senior Agriculture Ministry officials are usually products themselves of the moshavim and kibbutzim (socialist collectives). Not surprisingly, they defend their interests.

Israeli officials have a "pure, socialist mind-set", says Mr Bickel, a shudder running down his thin frame. His Beit Hanan flower-growing project, already the largest in the Middle East and one of the most technologically advanced examples of intensive farming anywhere, has still to receive government approval, two years after its ground was broken.

If Bickel Flowers were to receive the government's "approved enterprise" status, it would be eligible like any other exporter for a range of financial benefits, from investment grants to cheap loans and a generous tax holiday.

Being in a legal limbo – the product of the lengthy battle this solitary businessman has been waging against the system – he has had to dig into his own pocket for the $2.16m spent on the flower nursery.

In international terms, the project is comparable to barely half a dozen elsewhere in the world; a German-owned farm in Kenya and two Saudi-financed projects in Spain were mentioned. Even the big flower growing operations outside Bogota, in Colombia, oriented to the US market, are said to be more labour intensive than the Israeli project.

Established on sandy soil previously given over to growing oranges, the huge, environmentally-controlled growing houses have all their functions regulated by computer. Manual labour is thus kept to a minimum, a deliberate policy in the light of the dependence most Israeli farmers have on Palestinian workers from the occupied West Bank and Gaza Strip.

Although Mr Bickel's decision to opt instead for Jewish labourers, along with Bedouin tribesmen and women trucked in from the Negev desert, was taken before the Palestinian uprising began last December, in retrospect he is greatly relieved at his foresight. Farming in particular has been badly hit this year by the frequent strikes and other stoppages preventing Palestinians from the occupied territories getting to work.

He says the decision not to employ Palestinians (the Bedouin are Israeli citizens) was made on ideological rather than business grounds; it being a precept of traditional Zionism that Jews should till the soil. But the labour shortage in Israel, and its high cost, are clearly a handicap, so much so that Mr Bickel intends to advertise shortly for young Dutch teenagers to come and work in his fields.

At present, this modest-sized company handles the exports of some 140 Israeli growers, against the 3,500 who channel their goods through Agrexco. But even this small degree of competition continues to arouse the ire of a surprising number of prominent Israelis.

His activities are damaging to the state, argues Mr Amiram Sivan, managing director of Bank Hapoalim, the labour-owned financial institution ranked number one in the country. Often referred to in private as "that man who causes us so much trouble", Mr Bickel is unperturbed. "The government thinks small," he retorts. "It wants to protect growers and share the cake evenly among them. This builds a sick society."

London's New Covent Garden market: Business as usual

THE LEX COLUMN

Taking the art out of fund management

For the better part of 15 years, the British Rail Pension Fund has been taking it on the chin for daring to put £45m ($82.3m) into fine art, rather than under the mattress. Damned for eccentricity when it bought the collection, it has been damned ever since for selling it to the occasional foreigner. On the level of sheer aggravation and administrative cost, the fund's managers must often have wished they had stuck to philistine items such as equities and gilts, and left the artistic baubles to the more creatively inclined.

Looked at purely as commodities, though, the pension fund's stock of treasures has so far earned it a return which has done its bit for overall performance even if it has failed to match the inspiring levels of equities. So far, the fund has sold about one ninth of the total collection purchased between 1974 and 1981, in terms of book value; its clear intention is to get rid of it all.

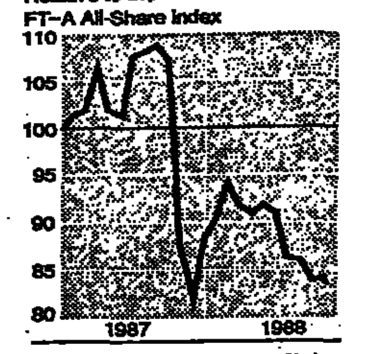
The average annual return on realised sales so far, at 11.4 per cent, compares with a total return on equities for the period of 20 per cent per annum. And though that may look a fair bit of opportunity cost to pay for a few paintings, it is worth remembering that 11.4 per cent is 3 per cent more than average inflation for the period. And the choicest bits of the collection are yet to come: the fund owns a number of Impressionist works, and a Sotheby's index for this category of art shows it increasing in value 14-fold since the late 1970s.

When the last pair of silver candlesticks has been sold, the fund says it expects that returns will have approximated to total returns on equities. If that is so – and saleroom receipts must surely be even harder to forecast than equity values – British Rail can emerge from the experiment with its pride intact. But it says it is not likely to repeat the experience, even if equity prospects look as dim as they did in the mid-1970s. And now that the lonely pioneer is giving up, no-one else seems likely to follow its example.

Advertising

Agencies

Relative to the FT–A All-Share Index



The old idea that advertising agencies were protected from hostile takeovers, because their best assets walked out of the building every night, was debunked by WPP's successful bid for JWT last year. Nevertheless, contested bids remain a rarity in a business which has no assets to speak of and relies for its success on the creative skills of a few individuals. It would be dangerous to assume that this will always hold true. UK advertising may be entering a period of slower growth, but it boasts some well-known brand names and good cash flow, and its stock market rating is depressed.

By most counts next year is not going to be anywhere near as good as 1988 for the global advertising industry. Interest rates are rising, and consumer spending is under pressure. In the US, which accounts for almost half the total industry, advertising revenues have been especially buoyant in the current year as a result of the Presidential elections and the Olympics; and even assuming that there is no recession on the horizon, it is hard to see how 1989 can be anything but a below average year, especially if moves to limit the tax deductibility of advertising payments gather pace in the US.

Meanwhile, last year's stock market collapse has severely dented the rating of the sector's high-fliers, and has meant that they can no longer rely on issuing expensive paper to finance continued growth. Saatchi & Saatchi, for example, is selling on a prospective multiple of 7 and yielding 6¼ per cent. It has little leeway to expand through acquisition, and its short-term earnings growth will be sluggish.

Saatchi's profits, which it reports next week, may be on a temporary plateau, and over the next year or two its push into consulting should begin to produce results. However, the outlook for many of the smaller advertising agencies is more confused. Spicer & Oppenheim's latest annual survey of UK advertising agencies suggests that the profitability of most quoted companies has declined as they have diversified both at home and abroad, and because of their low stock market rating this can no longer be disguised by further acquisitions.

If shareholders funds are adjusted to exclude goodwill write-offs, Spicer & Oppenheim calculates that only four of the 14 quoted UK companies earned anywhere near a decent return on their businesses last year. In any other industry this would already have sparked the attention of the predators, and advertising may not be allowed to remain different indefinitely.

US chemicals

Those who consider the British Steel sale top-of-the-cycle stuff should consider the flotation of Lyondell, the chemicals division of Arco of the US, due to raise up to $1.4bn at the turn of the year. This is a very basic commodity business indeed; half of it in oil refining, the other half supplying 9 per cent of America's ethylene and 10 per cent of its propylene. The business was heavily in loss until 1986, and at the time of sale will still have negative net worth. Against British Steel's yield of 8 per cent, this is to yield nearer 5 per cent. It is broadly hinted that the plant is not to be replaced in future: the business is simply to pump out cash as it rusts away.

Lyondell illustrates a curious discrepancy between the markets of the US and Europe. In both, there is the yawning gulf between the perceptions of managers and investors; but in the US, it has been resolved to managers' advantage. Since the huge losses made by petrochemicals in the early 1980s, investors have avoided the industry like the plague; but a string of spin-offs and LBOs – Sterling, Vista, Georgia Gulf – has made fortunes for those managers willing to bet on the upswing of the cycle lasting as long as it has.

In the UK and Europe, where none of that has happened, there has also been an almost complete refusal to contemplate major new investment in the industry. In the US, rather ominously, it is different; half a dozen new petrochemical crackers are at the planning stage, and ethylene capacity is expected to rise by over 20 per cent in the next three years. For the Lyondell deal, none of that matters. A flotation price of something over $30 will be underpinned by free cash flow of $4 a share in year one, and by the time the new capacity catches up the plant will be near the end of its useful life. As an investment banker's approach to the industrial cycle it has a certain chill logic, but it would hardly appeal to Britain's employers.

UK likely to buy US missile to replace nuclear bombs

By David White, Defence Correspondent, in London

BRITAIN appears almost certain to buy a US missile to replace the Royal Air Force's nuclear bombs in preference to a joint Anglo-French weapon.

Defence officials said that the UK was holding talks with the French on an aircraft-launched stand-off weapon but it was unlikely that a joint missile satisfying Britain's requirements could be produced in time to replace the RAF's free-fall bomb.

This means that the US SRAM 2 Short-Range Attack Missile will probably be chosen, at least as the initial replacement for the British bomb, the WE-177.

The bomb, developed in the early 1960s, will reach the end of its useful life in the late 1990s because of the age of existing stocks and because of improvements in Soviet air defences.

Mr George Younger, the Defence Secretary, is aiming for a decision on the new nuclear weapon by the middle of next year.

By taking the US option, Britain would deny itself the considerable political attraction of a joint programme, the first of its kind, with Europe's only other nuclear weapon nation.

A breakthrough in nuclear defence collaboration with France would step up the momentum of moves to forge closer links in arms procurement.

Anglo-French co-operation in air systems was discussed at a conference of officials and industry representatives in London last week.

The prospect of an Anglo-French venture was raised a year ago, after Britain decided against developing its own missile on grounds of cost. The US subsequently joined the studies, and technical experts from the three countries have held joint meetings this year to explore possibilities for collaboration.

France already has an air-launched nuclear cruise missile, the ASMP (Medium-Range Air-to-Surface). Made by the state-run Aérospatiale, it entered service in 1986 and has been deployed on Mirage IV bombers and more recently on Mirage 2000 strike aircraft. But the weapon under discussion would have been a follow-on developed to meet UK and Nato requirements.

Britain is seeking a low-level weapon for its Tornado fighter-bombers.

The ASMP, conceived as a high-speed, high-altitude weapon, has a range of about 300km, shorter than the 400km the RAF wants. And at low altitudes this is reduced to about 100 km, according to British officials.

The SRAM 2 is being developed by Boeing, the US aircraft maker, for use with the B-1B bomber and the B-2 "stealth" bomber, which was put on public display last week. The US Air Force wants more than 1500 units.

S. African jail release fuels hope on Mandela

By Jim Jones, in Johannesburg

SOUTH AFRICA'S announcement this weekend that it was granting an early release to two ailing black nationalist leaders has fuelled speculation of an early and unconditional release for Mr Nelson Mandela and other leaders of the banned African National Congress.

However, although Mr Kobie Coetsee, South Africa's justice minister, talked last week of a further relaxation of the restrictions on Mr Mandela, the Government publicly adheres to its stance that the black leader will be fully released only if he disavows violence as a means of achieving political change.

Government spokesmen say humanitarian considerations were behind Saturday's sudden release of ANC organiser Harry Gwala and Pan Africanist Congress (PAC) leader Zephania Mothopeng before completion of their sentences.

A more pragmatic reason is that the Government fears the possible reaction of blacks if any ageing political prisoners were to die in prison. In addition, observers here believe, the releases may be intended to smooth the way for representative black participation in president Botha's National Council (NC).

Chief Mangosuthu Buthelezi, the Zulu leader, has regularly turned down president Botha's blandishments to participate in the NC saying he would consider taking part only after Mr Mandela and Mr Mothopeng were released. However, yesterday a spokesperson for chief Buthelezi's Inkatha movement said Mr Mothopeng's release brought the Zulu leader no closer to the NC.

Gorbachev issues warning

Continued from Page 1

That was "inadmissible", "erroneous", and "without any legal base", the Communist Party leader declared, calling the move "political adventurism."

However, Mr Gorbachev also promised to make some significant changes to the draft, in apparent recognition that the rebellion not just by Estonia, but also Latvia, Lithuania, Armenia and Georgia – and widespread criticism by constitutional lawyers – has exposed real grievances.

The presidium decided, however, against any postponement in the Supreme Soviet session. A full-scale plenary meeting of the Communist Party central committee is expected to take place today, to debate and approve further amendments to the constitutional reforms before the potentially stormy Supreme Soviet. No official confirmation of the meeting has yet been given.

However, the amendments are not expected to satisfy the strongest republican critics.

The presidium also formally declared the Estonian constitutional changes to be invalid, because they conflicted with the national constitution which requires a unified legal system in all republics.

In his speech, Mr Gorbachev openly tackled the burning issue of race relations. "We have quite a few problems related to inter-ethnic relations piled up," he said. "Some of them have assumed a painful nature."

"Great responsibility is needed now," the Soviet President said. "We cannot agree to a situation where the opportunities brought about by perestroika, democratisation and openness are used to increase tension, and especially, to heat up the dislike of ethnic groups for each other."

"Our future is not in weaker relations between the republics but, on the contrary, in their consolidation," he said.

"The entire history of our country demands the development of the Soviet economy as a single complex."

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	16	61	Dubrovnik	C	08	46	Malta	C	08	46	Rhodes	F	16	61
Algiers	F	17	63	Edinburgh	C	05	41	Manchester	S	04	39	Rio de J'o	C	32	90
Amsterdam	R	07	45	Faro	S	15	64	Manila	F	30	86	Rome	F	13	55
Athens	S	13	55	Florence	S	10	50	Melbourne	C	16	61	Salzburg	C	03	37
Bahrain	C	25	77	Frankfurt	C	06	43	Mexico City	C	24	75	San Francisco	C	17	62
Bangkok	F	32	90	Funchal	S	19	66	Miami	C	25	78	Seoul	F	05	43
Barcelona	S	12	54	Geneva	C	-3	30	Milan	S	07	45	Singapore	R	32	90
Beirut	C	16	61	Gibraltar	R	15	59	Montreal	F	05	41	Stockholm	F	00	32
Belfast	C	08	43	Glasgow	C	05	41	Moscow	C	00	32	Strasbourg	C	02	36
Belgrade	C	01	34	Guernsey	C	09	48	Munich	C	02	36	Sydney	C	16	61
Berlin	C	03	37	Helsinki	F	-3	27	Nairobi	F	24	75	Taipei	F	18	64
Biarritz	C	12	54	H. Kong	F	19	66	Naples	S	12	54	Tangier	C	17	63
Bombay	S	31	88	Innsbruck	C	01	34	Nassau	-	-	-	Tel Aviv	C	19	66
Bordeaux	Fg	-1	30	Inverness	C	06	43	New Delhi	F	24	75	Tenerife	F	17	63
Brussels	F	07	45	Islamabad	-	-	-	New York	R	19	66	Tokyo	F	11	52
Budapest	C	03	37	Istanbul	R	03	37	Nice	S	13	55	Toronto	C	10	50
B. Aires	F	28	80	Jakarta	C	32	90	Nicosia	C	20	68	Tunis	F	16	61
Cairo	F	29	84	Jersey	C	09	48	Oporto	S	14	57	Valencia	S	15	59
Cape Town	S	23	73	Jo'burg	S	27	81	Oslo	F	01	34	Venice	S	08	46
Caracas	C	25	77	Lima	F	22	72	Paris	C	09	43	Vienna	C	06	43
Casablanca	S	19	66	Lisbon	F	14	57	Peking	S	10	50	Warsaw	C	06	43
Chicago	Sn	15	59	London	C	08	46	Prague	F	05	41	Washington	C	18	64
Cologne	F	07	45	Los Angeles	F	19	67	Reykjavik	R	05	41	Zurich	C	01	34
Copenhagen	F	03	37	Luxembourg	C	05	41								
Corfu	S	14	57	Madrid	S	11	52								
Dallas	F	06	43	Majorca	S	18	64								
Dublin	C	07	45	Malaga	F	16	61								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Rallies back devolution

Continued from Page 1

for our delegates (to the Supreme Soviet) who are going to Moscow to argue our cause. Let them remember this. On this point I stand: this is my home, this is my country."

At the same time, speakers were careful to stress that their movement was acting in the name of perestroika: and that they sought "consolidation" – a word much used by Moscow leaders – with other republics, although on a more equal and autonomous basis.

Mr Peeter Pahkla, Estonia's assistant foreign minister, said he envisaged that Moscow would set only the "overall strategy for defence and foreign policy for the Soviet Union." All other matters – including some issues of external relations and overseas representation – should reside with the republics.

Pointing to recent remarks by Mr Gorbachev in India, Mr Pahkla said: "I believe my General Secretary. He said that what was happening in Estonia was a process of democracy. I stress: without Gorbachev, there would be no Estonian renaissance."

SECTION III

FINANCIAL TIMES SURVEY

As Tokyo dominates the world equity markets and Japanese asset values continue to defy gravity, the problem for global investors, says **Barry Riley**, is how to judge the extent of their exposure, in the expectation that the bubble will eventually burst.

In the investment department of Henderson Administration, in London

Tony Andrews

INTERNATIONAL Fund Management

CONTENTS

Western rules may not apply

WHAT SHOULD be done about the Japanese stock market? Has it become big enough to impose its own rules upon the world's investment community? That is the daunting question that faces global investment managers today.

The rise and rise of Japan has brought the Tokyo Stock Exchange to the point where it dominates the global equity market. With a market capitalisation of some $3,500bn, Japan is now given a weighting of 43 per cent in the FT-Actuaries World Index. The once-mighty US market has been relegated firmly into second place, with 32 per cent.

An American fund manager seeking to construct a rest-of-the-world equity portfolio is currently faced with the need to build in a 62 per cent Japanese component if he is to match the weighting of Japan in the FTA World ex US Index, and a similar figure applies to the widely-used Morgan Stanley Capital International EAFE (Europe, Australia and Far East) Index.

For fundamental investors, who are driven by earnings and dividends, it is an almost impossible requirement. Japanese stocks sell on an average price-earnings ratio of perhaps 60, four or five times the going figure in other leading national stock markets. Dividend yields are 0.5 per cent, if you are lucky.

There are, to be sure, a great many excellent companies in Japan. But all assets in Japan (not just stocks) have been sent spiralling up in value, thanks to the buoyancy of liquidity. Talk of hidden or undervalued land assets is behind much of the buying of individual stocks in Tokyo today. Foreign investors are inclined to conclude that all asset bubbles burst in due time, and the Japanese one will be no exception. But when?

Tokyo was supposed to have been vulnerable last year, but when put to the test it quickly brushed aside the crash which flattened Wall Street and many other markets. Foreigners nevertheless sold heavily towards the end of 1987, and resumed taking profits on their Japanese equity holdings between May and August this year. But within the past month or two their nerves appeared to have started to crack. *Gaijin* bought a net $2.5bn of Japanese equities in October.

The foreigners are nibbling again in Tokyo because global investors have suffered cruelly from their inadequate Japanese weightings. When the world's biggest market is also its best performer, it is disastrous to misjudge it.

According to the WM Company, performance measurement specialists, global managers have lagged the world index by an alarming 5 percentage points a year over the past six years. Many of them have made considered and rational decisions to roll back their Japanese exposure, essentially by taking profits in what they considered to be an overvalued market. But the short-term effects in terms of the normal performance benchmarks have been cruel.

Some investors can sustain a long-term strategy. There is the famous example of the veteran Bahamas-based global investor Sir John Templeton, who piled into Japan 20 years ago when it was cheap and by the late 1970s had more than half his portfolio invested in Tokyo stocks. Now Templeton, who invests on a strict value basis, has nothing in Japan. Eventually he is likely to be proved right, but nobody knows how soon. Meanwhile, his short-term timing has proved to be unfortunate.

A few are able to wait, but many cannot. There is nothing more self-destructive in portfolio investment than to pursue a strategy which you may not have the patience (or client support) to see through until the bitter end. Those who have sold Japan short are now sorely tempted to cut their losses and go back in. Perhaps they have no choice if they are to retain their mandates. But the danger is that they will be forced back in just as the original asset allocation judgment starts to come right.

Cometh the moment, cometh the strategy. This is the big opportunity for the index fund promoters. Quantitative managers now have the computer programmes, the global dealing facilities and the choice of indices needed to put together efficient global index products. They are also in a position to emphasise how dramatically these passive funds have been out-performing actively managed funds in the past few years — at least on a notional basis.

This is partly because of the underweighting of Japan in global active funds, but also because of under-performance against the Japanese indices. Foreign managers have got their stockpicking in the Tokyo market badly wrong since 1984.

It was quite different in the early 1980s, because then the Japanese exporting stocks were powering ahead, and they dominated foreigners' portfolios. After all, international fund managers were seeking out what appeared to be Japan's particular strength, and that was its spectacularly successful manufacturing sector.

Nobody was interested in Japan's notoriously inefficient services sector. Domestic stocks such as city banks were hard to buy (and all but impossible to sell, because Japanese brokers thought it would be an insult to the banks) so foreigners steered clear, which for a time served them well.

But since 1984 the domestic sectors have shown tremendous relative strength, and many foreign fund managers have been stranded. In the past four years the WM Company's sample of Japanese funds has under-performed the Tokyo New SE Index by 10 per cent a year on average.

Foreign fund managers also hint darkly that they have lost out because of the favouritism shown to local investors in Tokyo, whether through preferential allocations of underpriced new issues or through the insider-ramped "hospital" stocks which are said to be used to repair the damaged portfolios of aggrieved clients. The ever-expanding Recruit Cosmos scandal only serves to encourage foreign criticism of ethical standards in the Japanese equity market.

Sour grapes or not, such sentiments underline the loss of morale of many overseas managers. Now there is an opportunity for index fund managers to provide an effective solution to the problem of failure to achieve index performance.

But that begs the question of whether an index is an appropriate yardstick in the first place. And it is possible that an index can in certain circumstances become very risky.

Active managers are inevitably cautious about Japan. For example, Ian Henderson, London investment director of Wardley Investment Services, sets a 38 per cent weighting for Japan in world ex US global equity portfolios. "A full weighting in Japan doesn't achieve adequate diversification," he says.

Some global managers seek a theoretical justification for weighting Japan much more lightly than that overpowering 62 per cent. A GDP weighting basis, for instance, will get Japan down to under 20 per cent. Another suggestion is a weight in accordance with Special Drawing Rights at the IMF, as a measure of the liquidity of the currency.

A different approach is to attack the validity of the Tokyo market capitalisation. The argument is that the design of the global indices fails to take account of the extensive cross-holdings among Japanese companies, especially in the financial sector where prices have been so firm in recent years. There is large-scale double-counting, so that Japan looms much too large in the conventionally-measured global equity market place.

There is no way of producing an alternative single-counting capitalisation with any precision. But one calculation is that as much as three-quarters of shares listed on the Tokyo Stock Exchange are locked up in corporate hands. On this basis, Japan's weighting in the World Index should be nearer 16 per cent than 43 per cent. We are in think-of-a-number territory here, but at least this is much closer to Japan's GDP weighting.

The final approach is simply to ignore the indices and go in for bottom-up stockpicking, Templeton-style. Given the apparent overvaluation of Japanese stocks, such a strategy is

Continued on page 3

INTERNATIONAL FUND MANAGEMENT 2

Equities' appeal has only been dented

European promise

THE CRASH of October 1987 was a traumatic event for global equity fund managers, and one from which they have yet to recover fully. The scars still show.

Yet, shocking though the sudden and drastic shakeout was, it failed to destroy the case for international investment in equities. In some respects, as in its demonstration of the benefits of global diversification, it has strengthened it. And a crucial point is that the long-term returns from equity investment have only been dented.

It is worth looking at figures for the FT-Actuaries World Index series for the past year. The World Index itself, expressed in terms of sterling, tumbled from 125.43 on October 2, 1987, to a low of 88.63 on December 4, a total drop of 29 per cent. But by September 30, 1988, the index had rallied to 110.54. Allowing for gross income, the return on the World Index for those 12 months, starting just ahead of the crash, was minus 8.8 per cent.

Against the long-run picture of attractive equity market returns, this was a far from alarming out-turn. The crash appeared devastating at the time, but amounted only to the sacrifice of part of the gains of the previous year or two.

Yet the figures varied substantially from market to market. The strong performance of *the Japanese stock market,* since 1987 the world's biggest, weighed heavily in the showing of the World Index. In fact, in the year to September, Japan achieved a positive rate of return of 7 per cent in sterling terms. Elsewhere, the US showed *a 16 per cent* negative return, Switzerland was off by 29 per cent and Hong Kong by 36 per cent.

In a recent research report the New York-based investment bank Salomon Brothers painstakingly built up a statistical picture of the international ownership of equities, and the changes during and after the crash.

During the early part of 1987, with the bull market still in full swing, institutional investors were continuing to commit large new sums to overseas markets. Net flows of funds reached an estimated $35bn in January-September 1987, with about $23bn going into the US market, and $14bn into continental Europe. On the other hand, foreigners were already taking profits in Japan.

The crash precipitated a general rush homeward. Fund managers regarded overseas equities as their most risky holdings, and perhaps as those *most likely* to be criticised by trustees or other supervisors. Nobody was likely to be sacked for staying at home in stormy circumstances – though it often turned out to be the wrong thing to do. Many global managers have built up a substantial degree of liquidity, which they have broadly maintained so far in 1988.

At any rate, Salomon estimates that the final quarter of 1987 saw a $31bn avalanche of cross-border selling, with UK institutions, for instance, unloading $11bn of foreign equities. Japan suffered worst, with $22bn of net selling by foreigners (making $43bn for the year as a whole). In the light of Tokyo's subsequent 1988 performance this was to prove a serious mistake.

The US institutions were only modest sellers, at $4bn, but there was consistent offloading by continental Europeans, at some $7bn, and by other investors (including offshore funds).

UK institutions therefore figured prominently in the aftermath of the crash, but this may have reflected the sheer size of their international portfolios rather than any particular tendency to panic. Despite the disposals, at the end of 1987 the UK's foreign equity assets are still reckoned to have been as large as $180bn against perhaps $50bn for the US and under $30bn for Japan.

Pension funds in inflation-prone countries such as Britain and Australia are particularly attracted by the high returns and inflation-protection offered by equities. In the 25 years 1963-87 the average annual return on equities, at 14.6 per cent, beat the 10.9 per cent inflation of wages and salaries.

For this reason UK pension funds have 70-80 per cent of their assets in equities. In lower inflation countries bonds are more important. The equity percentage is about *50* per cent in the US, and in, say, Switzerland the emphasis is heavily upon fixed interest securities.

During 1988 the behaviour of global equity investors appears to have been restrained, but net investment across borders may well have been resumed in a modest way. As listed companies become more international in their business, and seek more listings in foreign markets, it is natural that their ownership should tend to become more international.

Europe is perhaps the region of greatest immediate potential. The 1992 dismantling of remaining trade barriers within the European Community is provoking a series of cross-border mergers, and consequently portfolio managers are gaining a more international orientation.

Meanwhile, foreign fund managers have been drawn back into the Japanese market, despite the suspicions of many of them that stocks in Tokyo continue to be seriously overvalued.

In Britain, nine years after *the abolition of foreign* exchange controls on portfolio investments, pension funds have become comfortable with a 15 per cent overseas equities element in their portfolios, and it would not be surprising to see this climb to 20-25 per cent in due course.

In smaller countries, where domestic investment opportunities are restricted, even higher proportions can be appropriate. As for the US and Japan, however, exposure is very small at present (under 5 per cent for the typical US pension fund) but attitudes are changing. In Japan there is a strong, natural outflow of investment funds as the counterpart of the current account inflows. So far most of the money has gone into foreign bonds, but equity involvement is increasing.

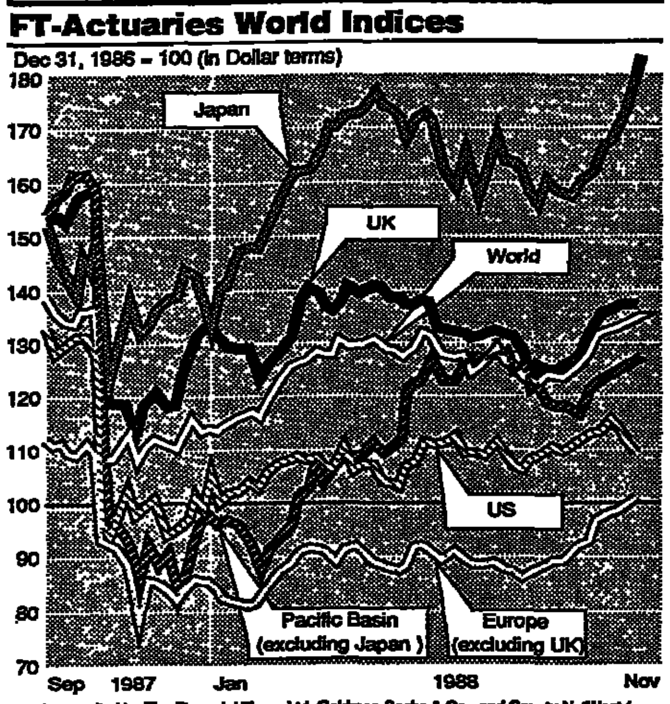
Currency movements can inevitably change perceptions. Weakness of the US dollar in the past three years has enhanced the returns achieved by American investors on their foreign portfolio investments. *But the reverse has been true* in Japan, where both on bonds and equities institutions have tended to burn their fingers. They have done much better on their domestic portfolios.

In the long run, however, it is diversification which counts. A *global* portfolio will show a better combination of volatility and return than any purely national portfolio, always assuming that there is not a strong correlation between the various country indices.

For a short time last autumn, when the world's equity markets were crashing together, it seemed that diversification might be a spent force. Global forces were obliterating the distinctive national trends. But subsequent months have provided a quite different experience. Over the year to September, national indices of the FTA World Index series showed wide variations in performance.

So international equity investment remains potentially a growth business. But, for the time being, many global investors are biding their time.

Barry Riley



Jointly compiled by The Financial Times Ltd, Goldman Sachs & Co., and County NatWest / Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

Major world equity markets

Measures of trading activity, 1986-87 ($bn)

Market	Turnover: Total	Turnover: By Foreigners	Foreigners as a % of total turnover: 1986	Foreigners as a % of total turnover: 1987	Trading ratio[a] by nationals in: Domestic equities	Trading ratio[a] by nationals in: Foreign equities
Canada	$165.3	$45.7	23.9%	27.6%	16.0	38.5
United States	4,297.3	481.9	7.8	11.2	168.4	84.0
France	169.2	28.4	26.3	16.8	6.2	37.0
Netherlands	155.5	27.8	20.6	17.9	28.0	24.1
Spain	72.2	16.8	19.2	23.3	8.9	13.3
Switzerland[b]	441.2	32.7	7.4	7.4	219.3	70.8
United Kingdom	632.0	144.1	25.0	22.8	41.1	41.4
West Germany	405.6	76.8	25.6	18.9	45.2	41.4
Japan	4,067.9	354.5	8.5	8.7	48.3	6.7
Australia	106.4	25.8	24.8	24.2	7.9	17.6

[a]Ratio of turnover (purchases plus sales) to *new money* inflows. [b]Excludes Zurich.
Source: Salomon Brothers

DIVERSIFICATION

Risk-spreading cuts the cost of capital

FUND managers, stockbrokers and pension fund consultants on both sides of the Atlantic who had been promoting global investment by appealing to the benefits of diversification were seriously embarrassed by the 1987 crash.

As the Dow-Jones index plummeted, all the other major equity markets appeared to follow, hour by hour, almost minute by minute. All the old adages warning against putting all one's eggs into one basket seemed of little relevance *when all the baskets fell* together.

Indeed, one of the main causes and effects of the global crash was the selling pressure from foreign investors in each market. In markets such as Japan and Singapore, the prices of the largest internationally-held stocks slumped, while the others barely moved. Between October and December 1987, UK portfolio investors divested about £7bn of their overseas equities from a total of slightly more than £100bn.

Since then, however, the *strong* divergence between the performance of different stock markets has given a renewed *boost* to the arguments for international diversification. Even in the first two weeks after the crash, significant differences appeared in the reactions of different markets. The Japanese market, for example, fell by only about 15 per cent, whereas Hong Kong, Singapore and Australian fell by more than 40 per cent.

Nevertheless, the degree to which the markets moved in *tandem was striking.* An analysis by InterSec Research Corporation, the Connecticut international pension fund consultancy, showed that the correlation between the total returns, in local currency terms, of world stock markets *reached an all-time high, with* the R-squared statistical measure reaching 70 per cent.

Since the crash, all stock markets which are open to foreign investors, with the exception of New Zealand, have recovered, but by markedly different *amounts. The number of* days on which a sharp overnight fall – or rise – on Wall Street, prompted an immediate reaction in sympathy in London or Tokyo gradually diminished.

Thus, in the 12 months from November 10 1987 (which was close to the post-crash nadir in most markets) to November 10 1988, the Australian market rose 69 per cent (in US$ terms), and the Japanese *market* by 38 per cent. But over the same period, the US market rose by only 10 per cent and the West German market (in line with most other European markets) rose by 13 per cent. The correlations between the different world markets have generally been lower during 1988 than in most previous years.

So is the widely-held view justified that, as both capital and product markets become globalised, different stock markets will move more and more in step with each other?

Markets' differing performances have boosted arguments for international diversification

Those markets, such as South Korea and Taiwan, which have shielded themselves from international capital flows by restricting or banning investment by foreigners, barely moved during *the world* stock market crash (although they fell back much later). As such markets open themselves up to foreign investment, a one-off adjustment is likely, before they join in the slow, often imperceptible convergence between different stock markets.

According to the Intersec figures, the average correlation (R-squared) between the different markets in local currency terms has been gradually rising, from 30 per cent in the early *1970s to about 40 per cent* in the late 1980s. However, in US dollar terms the trend, if anything, is in the opposite direction, with more volatile currency movements weakening the linkages between different markets. At all events, the time is still far away when stock markets move so much in harmony with each other that little is to be gained by international diversification.

Partly as a result of the crash, the arguments based on the benefits of diversification have been applied increasingly to bonds. US pension funds in particular have moved strongly into foreign bonds during the last year.

For a fund or investor with liabilities primarily in one currency (although indirectly those liabilities may be affected by the values of other currencies), the most difficult issue to resolve is the extent to which a portfolio of foreign bonds should be viewed as a currency play or unjustified currency risk.

A report by Salomon Brothers, based on data from 1977 to 1987, suggested that, for the US, a hedged basket of non-dollar bonds showed much less volatility, and therefore riskiness, than an unhedged basket when the returns on the two baskets were equal.

The long-term benefit of international diversification, as well as increasing the returns to investors for any given level of risk, should be to lower the cost of capital to companies. In theoretical terms, the premium for market-related or undiversifiable risk that the company's shareholders demand on their investments should be lower. The reason is that they are now able to diversify away the specific *risks of investing* in a particular company and country more effectively by holding an international portfolio of stocks.

This, in turn, should be translated into a lower cost of capital and lower discount *rate, to be applied when a com*pany's management is evaluating prospective investment projects. However, few, if any, finance directors, even of large multinationals, appear to have taken the implications of international investment to this *next stage of sophistication.*

Because of the relative infancy of global investment, even the business school finance professors, who normally take the lead in such areas, have yet to quantify the appropriate risk premium for *holding an internationally* diversified portfolio of equities.

Clive Wolman

Bonds: the currency factor

How hedging can help to trim the risk

Risk and returns of foreign bonds 1975-86

	UNHEDGED		HEDGED	
	Mean Return %	SD (1)	Mean Return %	SD
US	11.84	13.76	-	-
Germany	13.47	18.65	15.12	10.36
Japan	19.91	20.33	17.22	11.84
UK	13.25	21.32	15.11	15.19
France	10.52	16.25	11.37	9.20
Switzerland	11.52	16.49	14.60	11.26
Canada	9.10	14.71	10.21	12.66
Average	12.96	17.96	13.95	11.09

(1) Standard deviation of return
Source: The Performance of Currency Hedged Foreign Bonds, Lee R.Thomas III, November 1987, Goldman Sachs

THE GLOBAL bond market is a huge, dangerous and immensely profitable place for investors. It is a $9,400bn market which few who are serious about portfolio diversification, risk management and profit maximisation can afford to ignore.

Yet all these key areas of investment management can be undermined by failure to attend to one important variable in the investment equation: currencies, and the risks and rewards that movements in their value can have on returns.

Government bond prices in foreign markets, no less than domestic markets, are volatile. Returns, however, depend not only on domestic monetary policy and efforts towards international co-ordination of those policies, but crucially on the vagaries of currency markets.

A foreign investor in US Treasuries, for example, could see the gain made from the relatively high yields available in the US eradicated by a depreciation of the dollar, his hoped-for capital gain reduced by a change in US monetary policy, or a combination of the two.

For a fund manager contemplating investment in a foreign bond market, there are three key issues to consider:

■ Credit risk: the risk that the issuer will fail. For sovereign borrowers, which comprise the world's 13 major bond markets, this the least of the investor's worries.

■ Interest rate risk: the risk that interest rates may rise, and hence undermine the current market value of the security held and its potential capital gain.

■ Currency risk: the risk that the valuation of the asset, in terms of your own currency, suffers on conversion. Movements in currencies can be such that they turn capital gains to losses on translation, or enhance gains already made.

When it comes to the currency component of a foreign bond (or equity) investment, the issue comes down to the question: Does one hedge the currency risk or maintain an uncovered, open position for the life of the investment?

Work by Goldman Sachs, Salomon Brothers and many others suggests that there is much to be gained from hedging one's currency risk. Their research suggests that not only does a hedged bond portfolio produce higher rates of return to the investor through time, but that risk, as measured by the standard deviation of return, is also reduced.

Mr Lee Thomas, of Goldman Sachs, analysed the performance of the risks and returns of US, West German, Japanese, British, French, Swiss and Canadian bonds over the 11-year period from 1975 to 1986 from the standpoint of a US investor.

His research shows that there was a significant reduction in risk from a hedged portfolio of these foreign bonds, together with a 100 basis points better return.

"The differences in risk were so pronounced that they reversed the ordering of foreign bonds compared with US bonds," he found. "Held unhedged, all foreign bonds were riskier than US Treasuries, often by a substantial margin. When hedged, five of the six foreign countries' bonds were less risky than US Treasuries."

Historical analysis of the "what would have happened if" variety is fine as far as it goes. It shows that if one had invested in West German Bunds in 1975, the mean return until the end of 1986 would have been 17.32 per cent, more than 400 basis points better than if one were unhedged over the same period.

This analysis appears to assume, however, that, once a decision was taken to invest in Bunds in 1975, one's investment activity was wholly passive. Even though it persuasively demonstrates the return enhancement and risk-reduction qualities of hedging, reality is somewhat different: today investors want to trade international markets.

Mr Thomas is, however, alive to the criticism. He points out that the forward foreign exchange market is liquid only over a two-year horizon from the point of investment, so that hedging the value of the underlying long-dated bond and its periodic interest payments is very difficult and costly. The problem is also real for much shorter periods of time as well.

Furthermore, a simple hedging technique, where one sells forward the proceeds from the future sale of the bond, together with the income stream from periodic interest payments makes it difficult for investors to trade out of a market.

In the case where a US investor buys a gilt and hedges the half-yearly interest payments, and then decides shortly after purchase to sell the UK Government bond, he is still left with the forward contracts for the interest payments. Closing these out can be costly.

A more fundamental problem with this approach, which fully hedges the capital and income streams of the gilt, is that it converts the bond into a synthetic dollar bond. It behaves like a dollar bond and is sensitive to dollar interest rates.

In as much as an investor is choosing foreign markets for reasons of diversification, it makes little sense to construct synthetic US dollar bonds from foreign securities. A way to avoid and retain the qualities of foreign bonds one wants, such as interest rate risk and potential capital gain, while at the same time benefiting from currency protection, is to use a technique known as a "rolling forward contract".

This requires a certain shortening of the view taken on the relevant bond market, but it allows flexibility. The technique requires the expected value of the bond, including interest payments, to be sold forward for, say, three months.

This way the investor is protected from currency movements but is able to take an independent view on interest rates in the market in which he is investing. When the three-month contract expires it can, if the investor wishes, be rolled over indefinitely.

"The synthetic bond formed by combining a pound host bond with a three-month forward sale of the bond's future value bears a sterling interest rate risk but US dollar currency exposure," Mr Thomas says.

Simon Holberton

Changing rules

Continued from page 1

bound to leave a fund woefully underweight, and therefore vulnerable in present circumstances if it is assessed in terms of normal benchmarks. This is where the nerves may crack.

Japanese equities have had a tremendous run. In dollar terms the Tokyo index has multiplied almost eight-fold since 1981 (and by 4.7 times in yen terms), while the World index has trebled and the US index has merely doubled.

These figures slightly flatter the Tokyo market, because US equities have a substantial yield advantage which would show up in total return comparisons. And currency movements have been especially favourable to Japanese equities in the past 3½ years, during which Tokyo's World Index weighting has doubled.

However, there is no sign that the upward march of the yen against the dollar has ended. The Japanese economy continues to be stronger than its US counterpart, which is plagued by serious imbalances. Moreover the Japanese financial institutions are holding enormous liquidity, which is a reason to think Japanese asset values could defy gravity for a while yet.

For global fund managers the lesson is that conventional US or UK methods cannot be used reliably to run international equity portfolios. There is some irony in all this, because in absolute terms most foreign managers have actually done tremendously well out of their Japanese exposure. But it has not brought them peace of mind.

Bonds: the crash factor. Global prospects are unharmed, yet . . .

US pension funds hesitate

WHEN STOCK prices tumbled in the crash of October 1987, there was a natural reflex action for investors of all types to reassess the bond markets as vehicles for investment.

For fund managers, the rationale of investing in equity rather than bonds – that the former keeps pace with growth – was temporarily upset. The crash had so damaged investor psychology that the likely prospects of underperformance of equity markets for the foreseeable future deterred investors.

More than one year on, many fund managers now feel confident enough to view the crash as a reaction to an overheated market. As a result, the case for equities has reasserted itself and investment managers are cautiously returning to the market.

However, the crash has certainly not harmed the medium term prospects of global bond funds. There is obviously a view that bonds do have a place in the investors' portfolio, and if a case can be made for holding bonds, then a further case can be made for the diversification of a bond portfolio into a variety of separate markets.

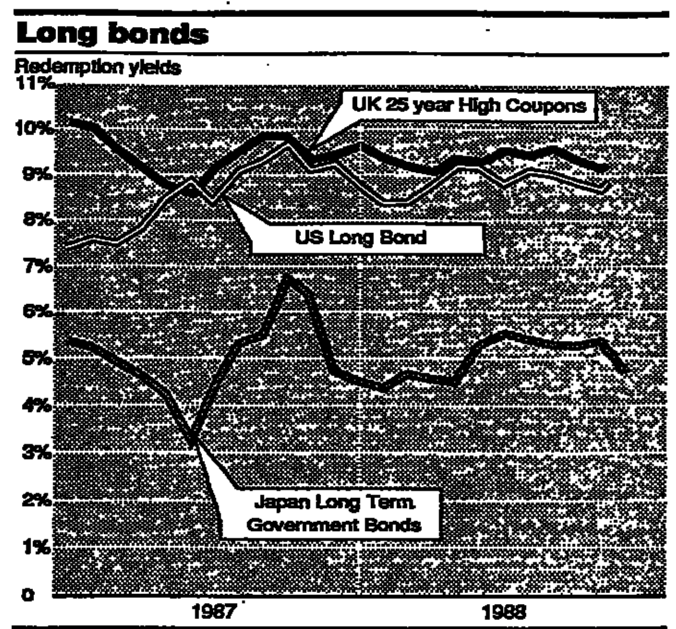
"Multi-currency bond funds offer an increase in the set of opportunities for domestic fixed-income investors. Due to local political factors and demographics, there are often anomalies between markets that can be exploited by investors," said Mr John Stannard, of the asset strategy consultants, Frank Russell International.

Since most of the investors in this area are in the US, the progressive weakening of the dollar since 1985 has resulted in an increased interest in diversification out of the dollar. Despite this growth, however, international bond funds account for a tiny proportion of US pension fund assets, probably below 1 per cent, and compared with 5 per cent of so for international equities.

Clearly, there is scope for these proportions to grow further. That said, it is widely agreed that the case for international diversification of a bond portfolio is substantially weaker than for an equity portfolio.

"In equities, you look abroad for growth in areas where you can't find it at home. In the bond markets, it's different. If bond yields are higher, this will be offset by a lower currency in the future. You don't get advantage except increased risk," says Mr Nobuyuki Kishi, managing director of Nomura Capital Management (UK). Only when pension fund managers see a fall in returns in the equity market will the case to move into the bond market be strengthened.

As Mr Stannard puts it: "If you believe in purchasing power parity for currencies then over the longer term, the different returns and currency movements cancel each other out. And you lose your capital preservation."



There is also the danger that in switching from market to market, the investor may miss a significant rally. The risks of multi-currency investment in bonds are naturally higher than for purely domestic investment.

Yet fund managers saw at the time of the crash the risks of being too heavily exposed to one class of assets. The correlation of performance between equity and bonds has been low in recent years, so if investors are exposed to both asset types then the volatility of their portfolios will be correspondingly lower.

Currency movement potentially accounts for a larger part of total return than is the case with equities, and there are two schools of thought about how a global bond fund should manage this currency risk.

The first and more traditional view suggests that the currency exposure should be actively managed to improve returns. A higher degree of risk is admitted, but proponents of this view see that as an opportunity to add value. In some cases, the management of currency is decoupled altogether from the portfolio management.

The other view holds that the currency risk should be entirely hedged using some of the new techniques which have been developed to this end. This view, of which Salomon Brothers has been a strong proponent, allows the manager to forget about currency movements altogether and simply manage the bonds.

Many practitioners adopt a selective hedging technique, taking of the hedge when they have a strong opinion about the direction of a currency.

The arguments about whether to be an active manager of funds, or a passive follower of the indices is certainly not so highly developed in the case of bonds as in equities. But, driven by their clients, some fund managers are looking to manage funds based on indices such as the Salomon Global Bond Index.

The aggressive marketing of global bond funds, mainly out of London and mainly to US fund managers has undoubtedly met with success, and there is potential there for much further growth. Yet, in the other markets, such as the UK, pension fund managers have hardly dipped their toes into the water.

On the face of it, the other great potential selling area for such funds would be Japan, the world's greatest exporter of capital. Curiously, because of the unique short-term decision horizon of Japanese pension funds, the concept of global bond funds have not made much impact.

With the funds aiming for income and realised gains of a total 5.5 per cent a year, they prefer high coupon bonds.

At present in Japan, there is hardly any well thought out allocation between currencies and countries, the techniques which UK and US pension funds have been practising for a long time.

Some change in this picture is likely, starting next year, as the Japanese market liberalises further and further obstacles are removed from the paths of some of the many foreign fund management enterprises in Japan. The realisation is growing that such short-term unsophisticated investment practices are unsuitable for pension funds which should have a longer-term perspective.

Stephen Fidler

Management styles: in an industry split between 'localists' and 'globalists', it's . . .

Horses for bourses in the world race

DISPERSE or not to disperse. Fund managers continue to debate whether they are better placed concentrating their activities in one office, or scattering their resources round the globe.

The debate comes down to whether a "feel" for the markets is more advantageous than a firm grip on overall management strategy.

The growing trend towards specialisation amongst managers is likely to encourage a multi-branch approach. It will be hard for firms to persuade trustees that they are the ideal specialist Japanese fund managers if they do not even have an office in Tokyo.

According to Mr Jonathan Taylor of Baring International Investment Management, "Having people on the ground means you are nearer to the markets and nearer to the companies you invest in". Baring has had an office in Tokyo for the last six to seven years, and given Western dislike for the high price/earnings ratios currently afforded the Tokyo market, Mr Taylor thinks "it is important to look at it from the Japanese point of view".

In some of the smaller markets, local traders are frequently adept at seeing foreign investors coming, whereupon they push up prices before the outsider buys.

Local managers quickly learn the tricks of the trade, so they can time the buy and sell orders to the fund's best advantage.

There are also obvious advantages for marketing purposes in having overseas offices. With pension fund trustees increasingly willing to employ managers from outside their locality, there are plenty of opportunities to expand the amount of funds under management.

Those managers that specialise in managing retail funds also can benefit from having local bases which help attract private investors.

The main problem in having managers "on the ground" is one of perspective. Just as divisional managers are normally reluctant to do anything that will diminish their business empire, so localised fund managers will be loth to tell their head offices to disinvest from their countries.

One can explain such instincts merely in terms of self-preservation but group psychology is also important. In any locality, the majority of fund managers will be indigenous and so will, by necessity, tend to invest most of their funds there. That will give them cause to "root for" their home market, a mentality that will inevitably affect their colleagues working for foreign fund managers.

There are further strategic problems. According to Keith Jecks, of Lloyds Investment Managers "there is potential for inconsistent philosophies and strategies across markets. For example, the US fund managers could pick stocks based on a belief in a rising oil price, whilst the UK managers could make selections on the basis of an oil price fall". To avoid that kind of inconsistency, Lloyds' international managers meet every month to agree strategy.

But such meetings are, of course, much more difficult if managers are scattered round the globe. Broadly speaking, the "top down" managers, those who concentrate on analysing macro-economic trends in making investment decisions, tend to favour the single central office. The "bottom up" managers who concentrate on stock selection tend to scatter their forces.

A prime believer in the "top down" investment philosophy is Robeco, which keeps all its fund managers in Rotterdam, based on the belief that it is easier to concentrate on factors like market weighting and currency exposure from a detached viewpoint.

There are strong centripetal forces when it comes to fund management. Maintaining a string of offices round the world is an extremely expensive business, especially in static or declining stock markets when managers' fees are falling. That expense is exacerbated by the fact that property prices in the three key financial centres, Tokyo, New York and London are the highest in the world.

There is obviously no need for a passive fund manager to be based in the heart of one of the major financial districts. Anywhere will do, as long as it has a telephone line and some way of operating the computer. A passive manager can invest in any market, where there is an index to be measured, without leaving the comfort of his executive swivel chair.

Technology, in the form of screen-based dealing services and cellular telephones, allows managers to base their offices in Scottish glens or leafy Massachusetts suburbs. Such dispersal not only cuts costs, it also makes working conditions rather more pleasant.

And such is the power of the investment institutions that companies are now showing their willingness to come to the managers, rather than wait for potential investors to come to them. Investor roadshows are commonplace amongst top US companies; other multinationals are rapidly catching up. One can keep in touch with the blue-chips without enrolling for a frequent-flyer programme.

However, the "localists" will point out that small company stocks have shown a tendency to outperform and such companies are difficult to discover and monitor from a distance of several thousand miles.

Given the various advantages and disadvantages, it seems inevitable that the arguments will not be resolved in favour of the single office or the global operation. Even the strongest believers in strategic direction are prepared to temper their purity; for example, when it comes to property management – Robeco's real estate fund Rodamco has separate offices in both London and Atlanta.

As the fund management industry increasingly separates into generalists and specialists, "top down" and "bottom up", so the globalists and the localists will no doubt develop their own philosophies.

Philip Coggan

PASSIVE MANAGEMENT

Trackers are respectable now

A FEW weeks ago, the UK's first pooled world index fund, aimed at pension funds, pulled in an impressive £140m at its launch.

The Aquila World Index Fund, run by Barclays de Zoete Wedd Investment Management, collected this volume of support from just five clients. BZWIM is confident that a lot more business can be attracted to this kind of vehicle.

Passive management has now become respectable in the UK, after a decade or more struggling to achieve recognition. It has taken a long time for index-tracking funds to show signs of achieving the same kind of success that they have scored in the US. In Japan and continental Europe, meanwhile, index funds are still at an even earlier stage of development.

For years, index matching was widely dismissed as a cop-out. Only inferior managers could fail to beat a broad market index. Pension plan sponsors were impressed by the glossy presentations and glittering promises of the active managers.

But, starting in the domestic markets of the US and the UK, the reliable if unexciting virtues of the passive managers began to be appreciated. Their fees were very low by comparison with those of active managers. And, as performance measurement techniques improved and data accumulated over lengthy periods, it became apparent that most active managers were actually failing in the apparently straightforward task of beating the indices.

This has proved to be even more true in global fund management than on the US and

Passive managers' fees were very low by comparison with those of active managers

UK domestic scenes. According to figures released by the WM company, global fund managers have under-performed the world index by an amazing 5 per cent per annum during the seven years to the end of 1987.

But global index funds have only very recently become a practical proposition. There are three fundamental requirements.

First, there must be an index suitable to be tracked. Although the oldest world index, the Capital International World Index, is some 20 years old, it has suffered from certain drawbacks as a basis for performance targeting. For instance, some constituent stocks – like NTT in Japan, or registered Swiss stocks – are not available to international investors.

In 1986, however, the Capital International index series was bought by Morgan Stanley, the New York-based investment bank, and it has subsequently been revamped. The SAFE sub-index (standing for Europe, Australia and Far East) is the one which is commonly targeted by US institutions looking for global exposure. (Encouragingly, it has just hit an new all-time high in dollar terms.)

Then, in 1987, the FT-Actuaries World Index series was launched, with backing in the US from another leading investment bank, Goldman Sachs, and in the UK from County NatWest Woodmac. The series includes a World ex US index, and also a World ex UK index which is the one being tracked by BZWIM's Aquila Fund.

Another index, the Salomon-Russell Global Equity Index, is a joint venture of Salomon Brothers, a third New York investment bank, and Frank Russell, the US-based pension fund consultants. Still another is the Euromoney/First Boston Global Index.

The second requirement is that the appropriate computer software be developed in order to cope with the complex requirements of running a global index fund. This amounts to a substantial investment, and no matter how large the resources made available it can take several years for the bugs to be removed from the systems. This is slowing down the arrival of new entrants to the global passive management business.

There are signs that the Japanese are starting to take passive management seriously

Although short cuts can be taken by using futures market contracts, and thereby creating synthetic funds, the tracking errors involved can be significant. On the other hand, to attempt full replication of a global index would be very expensive.

In practice, sampling techniques are used to cut down the complexity and cost of the task. Even so, to achieve consistent close tracking it is necessary to buy comparatively large numbers of individual stocks: the Aquila fund, for example, has started with 870 stocks in 17 different national markets, whereas full replication of the FTA World ex UK index would require 2,155 stocks in 23 markets.

Finally, the practicality of global index portfolios has also rested upon the ability of fund managers to deal quickly and easily across a wide range of international stocks. These facilities have improved in the past couple of years.

In the US the leading practitioners are State Street Bank and Wells Fargo, which run about $4bn and $1bn respectively in globally indexed equities. At the beginning of this year about $6.5bn of US tax-exempt funds was in international equity passive funds, according to InterSec Research. This was about a sixth of total overseas equity exposure.

In the UK BZWIM and County NatWest are the leaders, and the London subsidiary of Bankers Trust has also moved into global passive management.

Interestingly, there are signs that the Japanese are starting to take passive management seriously. Yamaichi, for instance, is offering an index fund service to UK pension fund clients, although with the emphasis on "tilts" or selective biases aimed at achieving outperformance. Its marketing entrée is provided by the fact that, since 1984, UK pension fund returns in Japan have under-performed the Tokyo New SE Index by as much as 10 per cent a year.

Lindsay Tomlinson, who runs the Aquila World Index Fund for BZWIM in London, makes a similar emphasis of the scope for tracking the Japanese indices more closely. He dismisses the claims of active UK managers that they have not, for instance, been able to buy Japanese City bank stocks. "Japan is going to prove a pretty easy and attractive market to index," he claims.

Looking beyond purely national funds, a popular use of indexation for several years now has been in active/passive strategies. These involve the use of national or regional index funds, combined with a top down asset allocation strategy. The approach is employed by fund managers who believe they can add value by juggling country weightings, but who make no claim to have stock-picking skills in, say, Japan or Germany.

But such managers have been severely tested by the strength of the Japanese equity market in the past couple of years, ever since September 1986, when it became fashionable for Western managers to lighten their exposure to Tokyo, with calamitous effects upon their performance against the world index.

Barry Riley

ACTIVE MANAGEMENT

Redemption in sight

FUND MANAGERS do not, by and large, receive a good press. As the old joke runs, "Why don't fund managers look out of the window in the mornings . . ? Because then they'd have nothing to do in the afternoons."

But the jokes have given way to even greater cynicism, given what is perceived as managers' persistent failure to out-perform the stock market indices. The growth of passive management poses the threat that fund managers as a breed could be replaced by the computer.

The classic problem for active managers is, of course, that they *are* the market and that, all things being equal, as many managers should under-perform as out-perform the index. In fact, the extra effect of transaction costs mean that the average performer seems doomed to under-perform.

Given also the tendency for small company shares, which managers dislike because of their illiquidity, to out-perform the blue chips, it might seem that active managers have no chance of recovering their reputation.

Things are not quite that bad. At times when money markets, bonds and real estate earn better returns than equities, it is possible for the balanced portfolio manager to out-perform either his local, or the world equity indices. In the decade up to the crash, however, equities were king, and decisions to move into other classes of asset have almost always proved a mistake.

Mr Nick Fitzpatrick, of consultant actuaries Bacon & Woodrow, argues that investment in fixed interest securities cannot be justified, at least for UK pension fund managers. "The liabilities of UK funds are linked to the rate of inflation, and in the long term fixed interest securities provide poor protection against inflation," he explains.

Investing in property can also be a problem for managers of smaller funds, because it is difficult to find investment vehicles of the necessary liquidity at the right size.

One solution to the problem is for a core part of the portfolio to be linked to the index, either in the domestic market or Morgan Stanley's Capital International World Index, and then for the rest of the portfolio to be actively managed.

The active part of the portfolio should not, under this system, merely be invested in blue chips, thereby replicating the passive element; instead, managers are told to select stocks with a greater growth potential.

That still leaves active managers with the problem of stock selection.

Broadly speaking, managers divide between the "top down" and the "bottom up". The former believe in allocating assets between various markets and categories of instrument on the basis of fundamental economic analysis. The latter look for specific stocks which are undervalued, and buy them regardless of country of currency, reasoning that in the long run such factors will balance out.

In fact, of course, the "top down" managers often use the "bottom up" methods once they have selected the particular market. The method of deciding whether stocks are undervalued tends to vary with fashion – Morgan Stanley Asset Management, for example uses a "back test" which applies price-to-net asset value ratios alongside more traditional valuations like dividend yield and price/earnings ratios.

The best-known "bottom up" manager is probably Sir John Templeton, of Templeton, Galbraith & Hansberger, which has resolutely avoided becoming a slave to fashion, investing in Tokyo when multiples were low in the 1960s and getting out of Tokyo, because multiples have been too high, in recent years.

"Top down" managers often tend to be addicted to "black box" economic models, through which they attempt to assess the effect of macroeconomic changes on equity prices. In theory, this could involve switching, say, 50 per cent of the fund into the Italian market, though in practice limits are set on a fund's concentration on any one location.

"Black boxes" are also used to construct asset-liability models, which attempt to determine the optimal allocation for meeting the funds' responsibilities for pension payments or assurance policy redemptions.

In the end, the suspicion is that many "black box" models are used as a back-stop. Managers make their allocations by old-fashioned rule of thumb; they then check their ideas against the model. If the two diverge too widely, they may rethink their rule of thumb ideas, but equally they may change the assumptions that underpin the model.

Country selection is still much more important than industry sector selection because, as Keith Jecks, of Lloyds Investment Managers, explains: "Most international stocks are more heavily correlated with their domestic markets than with their industrial sectors."

Currencies will always be a major problem. Although some managers believe it is possible to separate the currency from the market selection, others argue that hedging instruments cannot be used as long-term protection. Also, many argue that in the long term, at least in the major economies, currency movements are likely to prove less significant than movements in equity prices. Indeed, the interplay of currency and equity movements can be hard to disentangle – consider the effect that a falling currency has on the profits of a company's exporters.

Of course, many active managers are now not required to make portfolio allocation decisions – they are simply specialists managing funds in particular markets. According to Nick Fitzpatrick, of Bacon & Woodrow, specialists have been gaining ground over the last two years.

Someone, of course, still has to decide the allocation of the portfolio, and consultancy groups now offer an allocation-only service, leaving the actual management to the specialists.

With more and more markets open for consideration – Thailand, Taiwan, Korea – it seems certain that specialisation will increase and provide the best haven for active managers worried by the threat from the passive funds.

Philip Coggan

INTERNATIONAL EQUITY FLOWS
Summary net transactions 1987 ($bn)

INVESTOR FROM: / MARKET TO:	United States	United Kingdom	Continental Europe	Japan	Rest of world*	Market total
United States	-	0.54	1.35	11.37	2.97	16.22
United Kingdom	3.23	-	3.13	1.20	2.42	9.98
Continental Europe	0.26	2.04	3.50	1.59	1.30	8.69
Japan	(6.46)	(8.00)	(4.02)	-	(24.35)	(42.84)
Rest of World	1.84	5.12	2.85	2.72	(0.61)	11.92
Investor total	(1.13)	(0.30)	6.80	16.87	(18.27)	3.98

*includes "offshore" fund managers

Source: Salomon Brothers

INTERNATIONAL FUND MANAGEMENT 5

Tokyo's p/e riddle: fiddlers and fundamentalists can explain it

Fathoming the unfathomable

FOREIGN FUND managers have been left gasping for breath in the rarefied atmosphere of Tokyo. In each of the past five years, foreign investors have been net sellers of Tokyo stocks, during which time the Nikkei 225-share index has more than tripled. The index reached yet another new high on November 14 – 28,520.90.

There may be a convincing explanation why a share like that of the hotel operator Tokai Kanko is trading on a price/earnings ratio of 4,400. But when the average share will take nearly 64 years of earnings to cover its purchase price and is offering a return from its dividend of only 0.47 per cent, the occidental argument has run, it would be wiser to put your money in the post office?

To a western analyst, a high p/e ratio and a low yield are classic signs of an overvalued market best avoided (or further proof that Tokyo is irrational and unfathomable). But in truth the yardsticks used to make investment-risk decisions in London and New York – criteria such as p/e and yields – do not measure up to much in Tokyo.

There are two broad explanations of why not. The first is a fiddler's explanation: that the earnings component of p/e ratios are distorted in Japan by local practices that lead to reported earnings per share being understated.

The second is a fundamentalist's explanation: that Japanese share prices do not reflect primarily the value of a company's future earnings growth, as shares do in the west, but of the growth of the company's future asset value. On this view, a p/e ratio, however adjusted, is a useless guide to share performance.

There is something to what the fiddlers say. Because of high corporate taxes, Japanese companies have an interest in understating their profit. Thus they account very conservatively, particularly with regard to appropriations to reserves and depreciation. Other accounting practices such as the way subsidiaries are consolidated, not for earnings purposes but only with regard to dividend receipts, also depress reported earnings per share.

There is another distortion. This is in the calculation of the number of shares among which a company's earnings should divided to get an earnings per share figure for investment-risk analysis purposes.

To a western analyst, a high p/e ratio and a low yield are classic signs of an overvalued market best avoided

In London or New York, the overwhelming majority of the shares of a company can be said to be available in the market for trading. In Tokyo, a large portion of shares is never traded because they are held as part of the close cross-holdings between companies and financial institutions, or they are held to cementing business relations, and would not be traded except in extremis.

One reason for the popularity of tokkin funds, the special investment funds that have been widely used for companies' financial asset management, is that it has allowed companies to trade other companies shares without upsetting long-standing and highly-valued cross-shareholdings.

The rule of thumb used in Tokyo is that approaching three-quarters of the shares quoted on the Tokyo Stock Exchange are held for such long-term relationship purposes. Because so much equity is locked away and double counted, share prices reflect a premium for the low amount of marketable equity.

Adjusting for this, Mr Gideon Franklin of UBS-Philips & Drew in a paper written earlier this year calculated what he calls a free-market p/e ratio. Worked out this way, Tokyo's end year ratio falls from 58.3 to 13.9. That puts Tokyo more in line with London and New York (10.8 on the FT All-share index and 15.9 on the S&P 500, respectively).

The effect on an individual company's rating can be even more startling. The p/e of Nippon Telegraph and Telephone, the world's most expensive share, comes down from 249 to 12 on the basis of the free-market calculation.

The fundamentalists say that even as extreme fiddling as free-market p/e ratios does not go far enough. Japanese companies, they say, should be regarded as a mix of a commercial business, an investment trust and a property company. Just as conventional p/e ratios are regarded in London and New York as poor guides to the fundamental values of investment trusts and property companies, so too do they have limited application in Japan.

Fundamentalists say that for share valuation, the investment trust/property company sides of a Japanese firm outweigh the commercial business component. So Japanese companies should be valued appropriately – in terms of the ratio between its share price and book value (PBR), or shareholders' equity.

This is the approach that Japanese investors traditionally take. They also know that improving book value, not earnings, has been the main goal for Japanese managers because they have been judged on by how much they have increased their company's assets, not on by how large earnings they have been able to make to return to shareholders as dividends.

That is, in turn, a reason that yields are so low. Dividends are rarely increased. There is no expectation that they will be. Japanese companies regard their stock rather like bonds. There is an obligation to maintain the dividend, but a company would no more want to raise it that it would want to raise the interest payments on a bond.

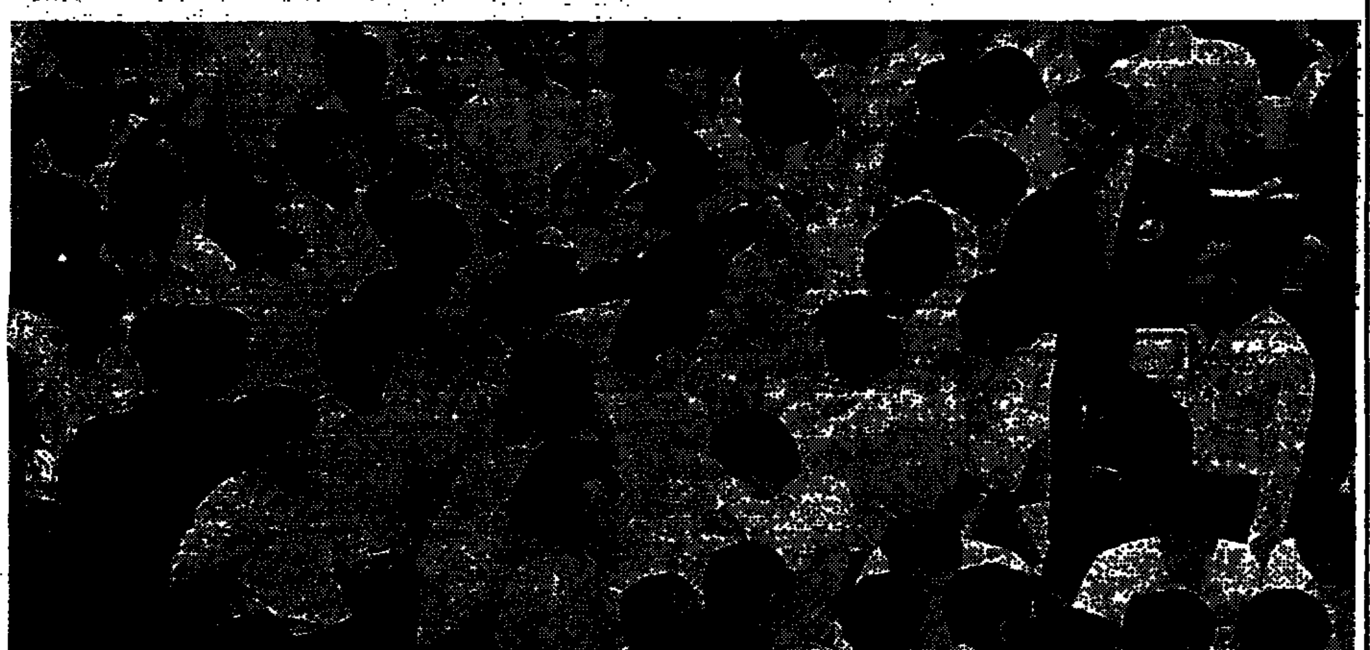
The dominant corporate and institutional shareholders prefer higher capital values for shares to better earnings. This lets them collateralise their shareholdings at current values. If they were to take income from them or to revalue them they would incur huge tax liabilities.

Mr Jeff Uscher, of Smith New Court, estimates that, if a company retains Y10 of its earnings instead of paying it out as a cash dividend, the increase in its book value will let a shareholder buy Y56 of other shares using his shares in the original company as collateral for margin trading.

Even using p/e ratios to value Japanese companies is a minefield. For tax reasons, companies are reluctant to revalue the book value of their assets. Older companies will tend to have even more out of date book valuations than younger ones.

Neither the fiddler's nor the fundamentalist's analysis show that Japanese share prices are necessarily cheap. And neither will help the short-term investor through the ramping and rigging of the Tokyo market. But they do underline that Japanese shares are not as overvalued as they might seem.

James Andrews



Where the yardsticks of New York and London don't measure up to much — Ashley Ashwood

JAPANESE OUTFLOWS

Dollar-doubts fuel volatility

JAPAN'S NET long-term capital outflow reached a record $136.5bn last year, reflecting the country's record dollar-denominated trade surplus and excess savings.

Japanese purchases of foreign stocks and bonds had risen smoothly up until then, from $26.8bn of foreign bonds in 1984 to $93bn by 1986; while purchases of foreign equities rose from $100m to $7bn over the same period.

Since then, the situation has become more volatile as Japanese investors have become more selective purchasers of foreign securities from month to month. They have been more responsive to short-term changes in foreign-exchange rates and bond-market prices, and have lowered their purchases, sometimes substantially, if the prospects looked bleak. In August 1987, Japan almost became a net importer of long-term capital (and was a capital importer if short- and long-term capital is combined).

In August this year, long-term capital outflows again dipped, from July's $24.5bn to $17.1bn. Japanese net investment in foreign bonds fell from $14bn-worth (their highest monthly total of the year so far) to $8.4bn-worth (their fourth highest), while net equity purchases fell from $900m-worth to $200m-worth.

In the past, Japanese investors have turned first to American Treasury bonds when investing in overseas securities. That has left their portfolios overwhelmingly dollar-denominated. Analysts reckon that in the stock of Japanese foreign indirect investment holdings, dollar-denominated bonds and equities probably still account for 85-90 per cent of the total. Until last year, investors showed little concern for the foreign-exchange risk they were carrying because of the appreciation of the yen against the dollar.

For some institutional investors, it was a less careless attitude than it might seem. Insurance companies in Japan are allowed to redistribute only dividend income, not capital gains, to policyholders; so interest rates matter more than capital values, especially if the asset is to be held for a long time. Japan's life insurance companies increased their net foreign securities holdings from Y3.1 trillion (million million) in March 1984 to Y9.8 trillion in March this year. However, the Y455bn cumulative loss on foreign securitiesthat the current-account balance from $87bn to $77.5bn now look optimistic.

Foreign-exchange dealers are not sanguine. In Tokyo, the dollar fell to a 10-month low in early November. Although exchange-rate movements are a prime consideration of Japanese investors, the persistently high levels of Japan's current-account surplus mean that capital outflows are likely to continue at an overall high level despite their volatility. It is a rare bird that would predict that Japanese investors will become sustained net sellers of

Whenever Japanese investors have lost interest in American Treasury auctions, the finance ministry has ordered their participation

Nomura Research reckons the top seven insurance companies alone made over that period has helped to concentrate others' minds at least. This has shown up in the greater volatility of capital outflows from month to month. Only once this year has the direction of Japan's capital outflows has been the same in consecutive months.

Behind the autumn decline in purchases was an end to Japanese investors' optimism that the autumn strength of the dollar will be sustained. The thinking behind this was that growth in the American economy is weakening, and the reduction of Japan's trade and current-account surpluses is slowing. Mr Satoshi Sumita, governor of the Bank of Japan, says that because "the declining trend of Japan's exports is coming to an end, there is a shadow over the external adjustment process".

Japanese investors share the view that earlier forecasts that the Japanese trade surplus will fall from last year's peak of $96.4bn to $91.5bn and reduce foreign stocks and bonds. Even in March, their most parsimonious month this year, they were net buyers by $591m.

There is another, yet stronger, reason for doubting that Japanese institutional investors will become heavy net sellers of foreign stocks and bonds – the Ministry of Finance would not allow it. Such a sell-off would put heavy pressure on the exchange rate and Japanese exporting industry (to say nothing of the world financial system). If push came to shove, even the ministry would side with industry rather than the institutions:

Whenever Japanese investors have shown a flagging interest for American Treasury auctions, the ministry has ordered their participation. That implies a continuing diversification of Japanese portfolio investment from dollar-denominated ones for as long as the current-account surplus can be seen to be remaining large. This trend could be seen to have started last year, when Japanese investment in bonds fell from 1986's $93bn to $72.9bn, suggesting lower levels of purchases of American treasury bills, while purchases of stocks more than doubled from $7bn to $16.9bn.

Salomon Brothers has forecast that this year Japanese foreign bond purchases will decline further to $62bn, though purchase of foreign stocks will be little changed from 1987's level.

According to figures from the Japan Securities Dealers Association, net dollar-denominated assets for the first eight months of this year accounted for 57 per cent of Japanese investors' total net purchases of foreign bonds, well below 1985's peak of a 67.5 per cent share; and 24 per cent of its equity investment purchases, against a peak of 70 per cent last year.

Japanese investors, and especially the big institutional investors such as the life insurers, however, are surprisingly constrained in which alternative markets they can turn to. The level of capital outflows is so high that there are relatively few markets, apart from America, large enough to absorb them comfortably.

Given the need of the life-insurers for high yielding bonds, this suggests that the Japanese will turn to sterling and Australian and Canadian dollar bonds. The London market might be especially attractive, because Japanese investors think the yen will weaken against sterling.

For their equity purchases, Japanese investors are likely to stick with the European countries that have big and accessible stock markets, robust economies and relative low bond yields: West Germany and France best fit the bill.

James Andrews

The US pensions industry is responding to a changed world

More funds invest overseas

"TIMES have changed," says Mr John Campbell, of Capital Management International in Philadelphia, as he launches into his sales pitch – "seven out of 10 of the largest auto companies in the world are not in the US. Seven out of 10 electronics companies. Eight of the 10 largest chemicals companies. Eight out of 10 machine-tool companies."

He pauses for effect.

"All 21 of the largest banks are outside the US," he adds. "Yes, times have changed. The best value in a given industry may not be in the US."

Mr Campbell is one of an army of pension consultants who have transformed the way big US corporations deploy their pension fund assets. In 1979, according to a study by Intersec Research Corporation, and published in Pensions & Investment Age, US private and public pension funds had only $1.7bn invested in overseas stocks and bonds.

By March of this year, at the close of a roaring bull market in stocks all over the world, the figure was $47.87bn, after explosive growth in 1985 and 1986. This may seem rather modest as a share of pension assets, estimated at more than $2 trillion (million million).

But pension people all over the US industry think the overseas share will rise steadily, if not dramatically, for the rest of this century. Mr Michael Clowes, editor of Pensions & Investment Age, says that demand for international managers has picked up after a rocky period in the wake of the stock-market crash.

"The overseas share is clearly going to increase," says Mr George Russell of Frank Russell Company, the leading US pension consultant which has been pressing overseas investment nearly 20 years. "In 10 years time, money managers will think in terms of a global brief."

The surprise is not that US pension plans are hiring US and foreign managers, including such UK firms as Morgan Grenfell, Robert Fleming and Baring International, to buy overseas stocks and bonds. It is that they have been so slow to do so.

Pension schemes must reckon in decades. Looked at from, say, the mid-1970s, US stocks have been a pretty good investment. But this cannot disguise a long-term decline in the US share of world equity capital, as America's grip on world trade has been prised open.

In 1970, US stock markets made up 66 per cent of world equity market capitalisation, according to Morgan Stanley Capital International.

In the spring of this year, the US markets were 33 per cent of the whole – a full reversal in just 18 years. The US equity market has been the best in the world only once in the last 10 years.

Some parts of the industry are more insular than others. About $600bn in pension fund assets are in so-called public funds, which provide pensions benefits for teachers and other public employees. They are managed by elected officials or political appointees. Another $100bn or more is in labour union benefit chests. These two sectors, accounting for about a third of the industry, are understandably reluctant to invest to create jobs overseas rather than at home.

Some corporate sponsors also object to overseas investment. Because of the 1974 Employment Retirement Income Security Act, which spelled out legal liabilities for the investors of pension assets, many corporations shuffled their pension plans into professional hands.

Even so, some corporate boards may not like their retirees' assets going to competitors – "imagine you're a fund manager and you go to an auto company and you say to the board: 'Invest in Japan,'" says Mr Campbell.

Or they are anxious about different accounting standards overseas, poor research or political instability.

But it is the corporate sector, with well over $1 trillion in pension money, which is leading the way overseas. Since the turn of 1980s, immense amounts of capital have become available for hostile takeovers. Even the very best-managed corporations have to ensure they are working their assets hard, even pension fund assets.

Fund managers say that some boards have become acutely interested in growing pension plans to the point that they can be deemed over-funded and can be tapped for cash. This has made them more willing to consider ambitious investment proposals.

According to an exhaustive set of interviews by Greenwich Associates, 32 per cent of the sponsors of corporate plans used foreign stocks, against just 26 per cent of public fund managers. In companies ranked in the top 100 in size by Fortune magazine, the figure was 69 per cent.

Over the past three years, the rewards of overseas investment have been palpable. In the fixed-income markets, where pension funds typically cover their actuarial liabilities, the bear market in dollars has provided reasonable gains from German, Japanese and UK bonds since 1985.

Meanwhile, a stock portfolio, weighted with Japanese equities according to the world market capitalisation, provided a good hedge in last year's stock-market crash.

For example, according to Mr Campbell, the Standard & Poor's 500 index returned 18.1 per cent annually in the three years to last June, whereas the Morgan Stanley Capital International Europe Australia Far East index provided a total return of 46.7 per cent. In reality, no US pension fund manager actually scored as well. To invest nearly two-thirds of an overseas allocation in Japan requires a leap of faith too bold for most funds.

Regulatory restrictions in Japan on the management of pension accounts have also held back the Japanese fund management industry – to the great advantage of the London merchant banks. According to the InterSec study, the leading Japanese manager of US international and global accounts was Nomura, with $1.1bn, well behind even NM Rothschild, a firm a fraction of its size.

The stock market crash encouraged caution all round, and foreign equities in US pension accounts actually fell in the year to March – to $38.235bn. But this was balanced by an increase in holdings of international bonds to give a modest net gain for the year. Many people in the industry think will be the trend to the year 2000.

James Buchan

Top 15 international ERISA fund managers

(all mandates) ranked by international assets under management, 1985-87 ($m)

Rank 1987	Rank 1986	Rank 1985	Manager	Assets under international management 1987	1986	1985	Number of accounts 1987	1986	1985
1	5	9	State Street	$3,885	$2,380	$1,000	19	16	14
2	1	1	J P Morgan	2,866	3,159	3,100	36	35	31
3	3	2	Capital Guardian	2,754	2,599	1,900	29	25	22
4	2	3	Morgan Grenfell	2,378	2,693	1,800	45	42	41
5	7	6	First Chicago Investment	2,286	2,148	1,400	13	15	12
6	4	4	Templeton International	2,118	2,395	1,800	97	53	45
7	9	7	Rowe Price Fleming	2,006	1,790	1,400	23	21	21
8	12	12	Baring International	2,006	1,370	819	24	16	13
9	8	8	Grantham Mayo	1,857	1,944	1,100	11	28	27
10	6	5	Fidelity International	1,800	2,200	1,700	17	21	19
11	11	14	Schroder Capital	1,635	1,420	800	34	25	18
12	16	NA	Worldinvest	1,535	766	NA	18	7	NA
13	14	15	NM Rothschild	1,421	1,021	604	11	10	9
14	13	10	Batterymarch Financial	1,164	1,070	880	7	7	8
15	15	20	Warburg Investment Mgt.	1,132	886	375	27	20	15

NA Not available.
Source: InterSec Research.

TOWARDS 1992

Ucits point the way

FUND MANAGERS in France and Luxembourg are already reaching for it. Their British counterparts are only just starting to wake up to it. Whatever happens, they will all be embroiled in a fierce tussle for new international business in the years ahead.

What they all have in their sights, of course, is the 1992 creation of a free internal market, which in the case of the fund management industry will start to happen well before then, both under the natural influence of market forces and the politically derived impact of European Community legislation.

The date that mutual fund organisations should now be underlining in their diaries is October 1989, when a clumsily named but important EC directive comes into force, the Undertaking for Collective Investments in Transferable Securities (Ucits), Eurospeak for unit trusts.

It will allow management groups to sell securities funds – for retail markets only – freely in any Community country on condition that they observe local advertising and marketing restrictions. This is the first time the EC has applied the liberalising principle of mutual recognition to financial services, and it could open the way for big changes in traditional marketing practices.

The next market opening step – of interest to institutional rather than mutual funds – is a European Commission draft directive on investment services due to be tabled shortly for EC governments' consideration. If accepted, it would allow securities businesses to take out a licence from their national regulatory authority to offer services across the EC. Those services would include institutional fund management and advice on individually tailored funds for large clients, say Commission officials, though the draft does not include collective institutional vehicles.

The extent to which fund managers have been protected from competition by their EC neighbours is underlined by the extraordinary differences between national markets. "The differences between products are starting to go and barriers are coming down. But I don't think people in the UK have yet realised how much the market is going to change," says Mr Angus Hislop, chairman of accountants Coopers & Lybrand's European financial services consulting group.

France is the EC's biggest supplier of unit trusts by a long way, with an estimated $160bn of funds under management at the end of last year, in the hands of its so-called Sicavs, (Sociétés d'Investissement à Capital Variable). That is more than twice the UK, the next largest, with $65bn.

The differences in the type of investment are equally large. The average UK fund is 90 per cent invested in equities, making it a more volatile investment vehicle than its French and Italian counterparts, which typically contain 55 to 60 per cent bonds. West Germany has an even more risk-averse mutual funds industry, with an average 5 per cent exposure to equities.

Since the UK funds' exposure to equities puts them at a disadvantage, because they did worse in the wake of the October 1987 stock market crash than their bond-dominated continental counterparts, few Europeans are likely to be keen on UK unit trusts right now. But in the longer term, there could be rich opportunities for UK management groups to ply their innovative wares in conservative European markets.

UK fund managers complain that the directive does not go far enough to ensure that European markets will really open up

The big problem, complain UK fund managers, is that the Ucits directive does not go far enough to ensure that those markets will really open up. It gives them the legal right to sell units abroad, but does nothing to help break down local marketing and advertising restrictions. But the Commission wants to see whether those restrictions will be eroded by the market freedoms to be unleashed by the Ucits directive before it decides whether to rush into what would be a horrendously complex attempt to harmonise marketing rules.

Marketing rights matter, because traditional ways of distributing unit trusts vary widely across the EC, making it hard for independent newcomers to get established on the Continent in competition against major financial institutions. But it is easy for newcomers to get going in Britain's more open market.

In the UK, roughly 60 per cent of unit trusts are sold through independent intermediaries, while banks and insurance companies dominate the markets in France, Spain and Italy. Independent mutual fund companies are almost unheard of in West Germany, the most conservative of all EC fund management industries.

Some of these markets are starting to change – but the signs are that the benefits are so far being restricted to innovative locals. They include France's Compagnie Bancaire, which recently started marketing Sicav units by direct mail, and Fideuram, Italy's largest independent unit sales venture. "They have only a tiny market share, but they are recognised as very successful," says Mr Hislop. "The message is that distribution is the name of the game."

The French Government is considering draft legislation to exempt Sicavs from investing 30 per cent of their portfolios in government bonds, while Italy is about to remove restrictions on foreign investment by local funds.

Further ahead, an agreed EC directive to remove controls on short-term capital movements for most member states by mid-1990 should also help fund managers to explore new European markets. As a result, France and Italy will have to scrap their rules against the holding of foreign bank accounts, which should make it easier for their nationals to buy foreign funds.

Even after these curbs are lifted, French investors, for example, could run into trouble with their tax authorities if they bought UK roll-up funds. These automatically re-invest dividends so that they can be counted as a lightly taxed capital gain when the units are eventually sold, rather than being liable for income tax. French law does not allow that trick, so investors must pay income tax on dividends as and when they arise.

If the mutual funds industry is making cautious progress to 1992, liberalisation is bound to be an even slower process for managers of big institutional funds. In developed markets like West Germany and Holland, fund managers have traditionally faced detailed investment restrictions. Only last year was ABP, the biggest Dutch pension fund, allowed to place a mere 5 per cent of its portfolio abroad. Newer markets like Spain and Italy are thought to offer far better opportunities for foreign suppliers.

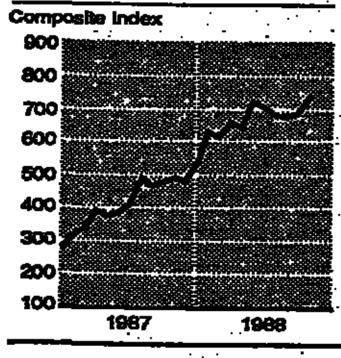
Just how far the draft directive on investment services would break down those barriers will not be clear until after January 1993 when the plan will come into effect, if EC governments give it the green light. The present version – which could easily be changed as it goes through the EC's decision-making mill – would cover portfolio management and advice among a range of other securities related services like broking, dealing and market making, say Commission officials. It includes a separate list of the type of product covered; securities, financial futures and options, money market instruments and exchange and interest rate related instruments.

Any firm in those categories would need only to be authorised by its own national securities authority as professionally sound, according to EC rules, to be free to carry out business in any Community country through a local branch or even without a physical presence there. It would, however, have to observe local rules on capital soundness and risk exposure.

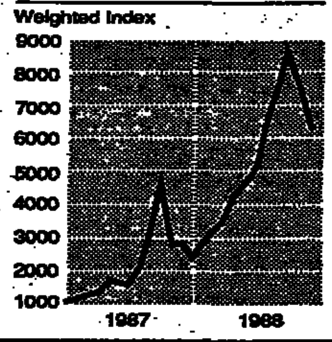
The Commission has deliberately separated the issue of securities' firms capital adequacy for a separate harmonisation directive, which officials have just started drafting. That follows the same strategy it took on banking, where Brussels has issued separate directives on market access and capital rules that banks should observe to qualify for an EC licence. Finding a consensus among 12 governments on securities' firms risk exposure is bound to be even trickier than on banking. Says a Commission official: "We knew that if we tried to do everything at once, it would not be very realistic."

William Dawkins

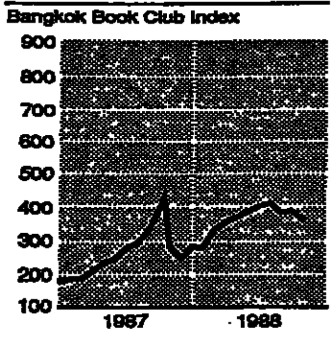
South Korea
Composite Index



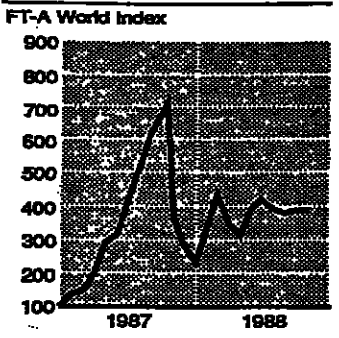
Taiwan
Weighted Index



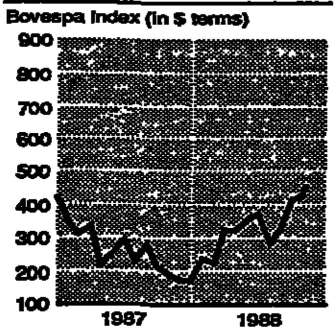
Thailand
Bangkok Book Club Index



Mexico
FT-A World Index



Brazil
Bovespa Index (in $ terms)



Emerging markets are exciting but hazardous

Thailand still popular

THE Brazilian stock market has risen by 170 per cent this year, the US by 9 per cent. Taiwan is up 183 per cent, and Tokyo by 32 per cent. Mexico has meanwhile climbed 60 per cent and the UK by almost 7 per cent – all begging the question: can the international investor afford not to put at least some money into the emerging markets?

There appears to be no easy answer. Had you, for example, invested $1,000 in tracking the index of emerging Thailand at the start of the year, you would now have $1,480. The same money put on the FT-SE 100 in the mature market of London would be worth $1,067 today. If, on the other hand, you had picked Portugal, another developing market, you would be left with just $840.

Emerging markets carry an extra large health warning: they can go down as well as up, and usually do so more quickly than their more developed counterparts. Obviously that means the possibility of large losses and large gains.

Taiwan is a particularly apposite example. In the first nine and a half months of this year it jumped by more than three and a half times; in the following three weeks it plummetted by more than 30 per cent, on news that a capital gains tax would be imposed at the start of next year. It appears to be on the way up again, but who knows?

Emerging markets are by definition immature. They are usually illiquid and volatile, are difficult to get information on, and can be troublesome to settle in.

Some allow overseas equity investors to buy shares directly – often at a pricey premium – others allow money to enter only through authorised funds. And they are generally in countries which offer strong economic growth potential, which are starting to open up their economies to the international investment community and in which there is often political instability.

Such facts of life can make direct investment by the private or institutional investor a complicated and costly venture – if not impossible, as in those markets which forbid it entirely, such as Taiwan, India, South Korea and Brazil. There is also a concomitant currency risk.

The accepted avenue into such markets is through special country funds, a plethora of which have appeared over the past couple of years.

There are closed-end, open end, offshore and onshore funds. Some concentrate on one market, others on a mixture of markets, others still on sectors. They cover the gamut of risky to risk averse – and their performances are very varied.

Emerging markets are usually illiquid, volatile and difficult to get information on

Thailand is probably the most popular emerging market this year, with several fund launches over the past 12 months taking the total amount of country fund money there to more than $500m. Some people feel it is reaching saturation point – or as one investment manager put it becoming "funded out" – but there appears still to be demand.

SBCI Savory Milln has just closed subscriptions for its new UK-listed $75m fund, the Thailand International Fund Ltd, and says there is still considerable interest among the continental European investors at whom it is aimed.

Thailand is an interesting market because the international investor could, if desired, invest directly, buying shares on the foreign board where stocks are trading at a premium of up to 20 per cent. Some of the country funds are currently trading at a similar premium to net asset value, but have been as high as 80 per cent.

So what do you get for your money when investing in a country fund? Whether listed abroad or an open end unit trust, it is usually managed locally, giving access to local knowledge, information and expertise. There is a fee included for the operation of the fund by the overseas managers and underwriters. And being able to invest in a spread of equities means a concomitant reduction in risk.

Since investing in emerging markets generally makes up a small proportion of the average portfolio – a maximum of 5 per cent seems to be the recommendation – the special fund can be the most cost-effective entrance.

Mr Peter Scott, international investment strategist at Gartmore Investment Management, points out that it probably costs an international fund management company less to pay the management fees of an outside fund than to employ its own experts – unless, of course, it is investing a very large amount in such markets.

In spite of the apparent risk, the international investor really cannot afford not to be invested in emerging markets, says Mr Scott. "On a long-term view there will continue to be tremendous opportunities as new countries and stock markets emerge, with high growth opportunities."

Purists would say that only the newly developing countries, such as those in the Far East, Brazil and Mexico, qualify as emerging markets. But there is a growing interest in places like Portugal and Greece, with stock markets which are established but remain very small and inexperienced.

Schroders Securities launched its Greece Fund in September after a few teething troubles which forced it to turn to investors on the Continent rather than just the UK. The $20m fund is expected to be fully invested by the end of the year.

The theory with Greece, as with Portugal, is that there is plenty of promise on a longer-term view. The onset of 1992 and the removal of internal trade barriers in Europe, the potential for healthy economic growth, apparent political stability and planned "mini big bangs" in their stock markets all offer scope for growth.

Both markets have, however, been poor performers this year (although Portugal appears to be taking off in the past few weeks) and that underlines the other important characteristic of investing in emerging markets – such investment should be seen as a long-term venture.

As Mr Audley Twiston Davies, of the $14m Brazilian Investment Company fund, says: "It is for the sophisticated investor who puts in a relatively small proportion of his investments.

Hilary de Boer

Property is becoming a global business

Waiting for securities

THE COMMERCIAL property business historically has tended to be local. Gradually this is breaking down, but the internationalisation of property has lagged behind that of the financial markets.

Yet the two are linked together. At the same time as financial markets have become global, they have become more sophisticated, spawning a variety of different instruments that would have appeared inconceivable 20 years ago.

Once these instruments have more surely encompassed the property business, then the international trading of, and investment in, property will undoubtedly become more widespread than it is at present. As Mr Michael Mallinson, the property chief at Prudential Assurance, reminded the Royal Institution of Chartered Surveyors a year ago, "Globalisation will occur only when property is presented in the form of a security, whether that be debt or equity."

Once property-based securities are available on a wide, international scale, then some of the intrinsic inhibitions to property investment dissipate. At a stroke, the problems of large, lumpy investments, often demanding a long view of actual and potential returns, disappear in the face of a vehicle which would be relatively cheap and easy to trade.

There are moves in this direction which build on the real estate investment trust market in the US. Schroder Real Estate Associates which, in New York, manages among others the North American Property Unit Trust, an investment medium for British pension funds, has highlighted the securitisation of commercial mortgages.

"Although office building mortgages are being packaged for sale in the securities markets, the techniques are still in their infancy and marketing is difficult because the packages are so complex. This will change. Several firms are currently working intently on creation of effective bond-like rating systems for commercial properties. Once those are in place, a strong secondary market will evolve for mortgages on income-producing properties," suggests Schroders.

But also there is a unitised property market in Australia, and others in some European countries such as Belgium. In Britain tortuous movements towards a market in the securities of single asset property vehicles may come to fruition in the next few months.

In all of this there are the elements of a new emerging market in securities which would bear some resemblance to the international market in fixed interest stocks. Income would be available without having to work a way through the thickets of national property markets and without having to consecrate large sums for direct investment.

The case for property investment in a foreign country is that it offers a diversification of investment, and can sometimes offer higher yields than are available locally. Traditionally, this has been the case for British institutional investment in the US. It has been manifest in Japanese investment in the US. But those yields go up and down in line with currency fluctuations.

Funds look for stability and, as Mr Mallinson says, there are probably 20 countries in which Prudential might operate with relatively little political risk. And these are countries where domestic institutions have been making money from commercial property.

But the experience of some British funds in the US –

Continued on page 8

OFFSHORE FUNDS

Umbrellas in fashion

EARLIER THIS month, about 100 financial advisers gathered in a London hotel for the launch of the Luxembourg-based Fleming Flagship Fund.

It is one of the new and fashionable "umbrella" offshore funds, which, in fact, are a collection of specialist funds covering all the world's major financial and security markets.

Fund managers from London, New York, Tokyo and Hong Kong talked about trends and possibilities in the bond and equities markets. Each ran a local fund – Jardine Fleming's Pacific Fund, for example, or JF's Currency and Bond Fund – and each of their funds will be mirrored by an offshore Flagship Fund.

It was in some ways an odd occasion. Although the Flagship Fund is based in Luxembourg, no one was present from the Grand Duchy. And, while almost all the advisers present have their offices in Britain, they cannot market the fund to residents of this country.

Although their headquarters are in the City of London, Fleming International Investment Management, along with dozens of other well-known companies like Lazards and Gartmore, who have launched or plan similar funds, cannot advertise offshore funds in the British press or on television.

Yet it is perfectly legal for British citizens to invest in offshore funds, provided they do so unsolicited. Why, one might ask, would anyone want to invest in an offshore fund, based in Luxembourg, the Channel Isles, or another tax-gentle financial centre like Hong Kong, when they could buy British unit trusts?

The answer is that, for many investors, they are more tax-efficient. If you invest in an offshore umbrella fund, you are allowed to switch in and out of the various sub-funds, often at little or no cost, and these switches are not subject to capital gains tax; whereas, in British-based funds, they would be.

Thus the UK-based investor can roll up all his gains in one fund, postponing any tax liability until he disposes of his investment.

Another benefit, perceived by those who fear a Labour government might reintroduce exchange controls and limits on foreign investment, is that one's savings can be managed in the international markets with a minimum of political interference. This benefit is particularly appreciated by those living in countries with unstable politics or economies, or where the tax regime is much harsher than in Britain.

The threat posed to conventional British unit trusts by these offshore funds is limited, so long as they cannot be marketed in the UK. But from next year this particular arcane rule will be dropped for all funds marketed from places to which the Department of Trade and Industry has given "designated territory" status.

To achieve this, the territory has to fulfil certain conditions, the most contentious of which is to provide a compensation scheme for investors considered to be equivalent to that available in the UK.

The Isle of Man was the first centre to win its spurs. Designation for Jersey and Guernsey is imminent. Luxembourg will shortly gain recognition through its full membership of the European Community.

So far Luxembourg and the Channel Isles are the most popular centres for umbrella funds, but there is a push in Ireland to put Dublin on a par with Luxembourg. The Government plans to abolish corporation tax levied on companies operating out of Dublin's Custom House International Financial Services Centre.

The British Unit Trust Association is alarmed by the possibility of an umbrella funds invasion, and has been heavily lobbying the Mr Nigel Lawson, the chancellor, and Lord Young, the DTI secretary, to abolish capital gains liability on switches between sub-funds.

A change does seem probable in the spring budget. Less likely is another UTA demand – the scrapping of tax disadvantages on unit trust dividends, where tax is deducted at source. Offshore funds do not make such a deduction – the tax declaration is left to the investor.

The UTA argues that, if the Government fails to make these changes, "London's position as the fund management centre of Europe will be undermined, and the UK will lose jobs and revenue".

Colin Chapman

Settlement: now that low turnover has helped to redeem Italy . . .

Spain is Europe's bugbear

POOR old Italy. It is having a hard time shaking off its reputation as an unacceptably risky stock market in which to do business.

Yet Italy has probably done more in the past two years to improve its system than any other exchange. Its Monte Titoli central depository now holds more than 90 per cent of all tradable shares, so that purchases and sales can be recorded by electronic book entry, and paper transfers are largely dispensed with.

Many more of the smaller Italian banks now act as stock custodians, easing the pressure on the big banks' back offices where most of the work was concentrated in the past.

Those who deal closely with Italy are full of praise. Mr Alan Skinner, a vice president of Bankers Trust, one of the leading global custody banks, describes Italy as "a shining example". Failed – uncompleted – Italian trades plunged *from 72 per cent of the total to* just 4 per cent between August 1987 and July this year, the bank says.

Italy has been helped by low turnover, which has been picking up only gradually since the old system cracked under a wave of foreign buying in 1986. After plunging from a daily average of L500bn at the peak, it has recovered to about L200bn in the past few months.

The global crash of 1987 proved a blessing in disguise for back-office workers in other markets with severe settlement problems. Backlogs that once looked insurmountable have all but disappeared as business plummeted.

It might seem the perfect time to implement much-needed reforms, before equity markets take off again. Yet the past year has seen more talk than action. "I think we've been treading water," says Mr Chris Blows, head of international settlements at County NatWest WoodMac, the UK securities house. "People are finding it very difficult to go forward and say to the powers that be: We'd like 'x' millions and it will be money well spent. That's a very difficult thing to say when you're not making any money."

Some global players still regard the UK as one of the worst markets in which to settle

The financial costs and legal complexities involved in modernisation can be huge. But these have to be weighed against the losses incurred in dealing with a plethora of incompatible and inefficient *systems across the world.*

Few countries in Europe have common settlement methods or account periods: West Germany settles two business days after a trade, Italy and Switzerland three, Sweden five, the Netherlands within 10. UK settlement is six business days after the account; in France it is six calendar days.

Spain, which has replaced Italy as the bugbear of European settlement, has payment and receipt of money on separate days, while stock is delivered 10 days after the last Friday of each month. Complaints cite delays in obtaining information from banks and from local brokers through whom all transactions must pass.

Most continental markets work fairly smoothly. France, for example, has transferred most of its shares on to an electronic register and destroyed 2,400 tonnes of paper certificates, although there are still complaints about delays in delivery of the handful of registered stocks.

Farther afield, Singapore has reformed its settlement procedures, but registration of ownership changes, which should take two weeks, can be delayed by a couple of months, and investors face stringent buying-in penalties. Australia has no fixed settlement date, so it is difficult to know if a trade has failed and to cover foreign exchange requirements.

It is the UK that some global players still regard as one of the worst markets in which to settle. The backlog that threatened to overwhelm the system in the wake of the Big Bang deregulation is a thing of the past. But the labour-intensive paper system still generates late trades and partial deliveries, sometimes with delays of up to eight weeks.

The launch of Taurus, the computerised system designed to replace physical share transfers, has itself been delayed. It is now due in February 1990, although there may be the possibility of phasing it in earlier.

There are almost as many "global solutions" on offer as problems. There are the big custodian banks, which aim to take the pain out of interna*tional investment by dealing* with local markets on their clients' behalf. Whether they can be all things to all men is arguable. "No one bank is ever going to be an expert in all countries," says Mr John Warner, associate director for foreign settlements at SBCI Savory Milln in London. "There are different banks who're good for certain things in certain countries." He suggests, however, that a conglomerate made up of a US, European and Asian bank might offer a global answer.

Then there is the cross-border settlement offered by Euro-clear in Brussels and Cedel in Luxembourg, based on central accounts which can be debited and credited electronically in all major currencies. The service is swift and paperless, but some brokers feel it does not offer the widest range of equities or the personal service they need.

Electronic links are meanwhile slowly growing between different markets. "The ultimate objective must be that stocks and shares settle all the way round the world using one unified system," says Mr Bill Brodie, director of settlement at County NatWest WoodMac, in Edinburgh. But obtaining the agreement of all the parties concerned – brokers, custodian banks, central banks and stock exchanges – is far from easy. "It could be many decades yet before we get a World *Clear system," he says.*

Conflicts of interest arise. Global banks are unlikely to encourage direct links between stock exchange clearing systems that might kill off their own business as intermediaries. Some UK brokers are unhappy about abandoning the fixed fortnightly account – with its ample opportunity for speculation – for a rolling settlement system like that in the US or Japan. But others feel the long *account period leaves* market players exposed to risk. Switching would be costly, but a rolling system would end the uncomfortable peaks and troughs in back office activity.

Alison Maitland

REGULATION

New rules can lead to conflict

SOME OF the big US pension funds, which draw up their own management contracts and ask their external investment advisers to sign them, are now being told by UK managers that these documents do not comply with British regulations for customer agreement *letters and must be changed.*

Naturally, these big US institutions do not like being told that their legal arrangements are inadequate, and resent the need to make complex adjustments. "It puts us at a disadvantage," says Keith Brown, managing director of London-based Worldinvest, an independent global manager with many US clients. "They often feel we are just being awkward."

Although minor in itself, *this is an example of the kind* of incompatibility which can arise when international managers attempt to operate within a framework of distinctive national regulation.

The problem is potentially more serious, because regulation of fund management is in its early stages in most countries, but is developing rapidly. There is a risk, for instance, that the proposed European Community Investment Services Directive could produce conflicts and create barriers, although a great deal of argument is going on behind the scenes to ensure that the worst does not happen.

In most countries, regulation of investment management is either very new or is still non-*existent. The only country* with extensive experience in this field is the US, where the Securities and Exchange Commission has long included money managers within its remit, through its division of investment management.

For non-US global managers the key piece of US legislation has been the 1970s Erisa law (it stands for Employee Retirement Income Security Act) which includes regulatory provisions for managers who wish to work for US pension plan clients.

Until this year UK fund managers went virtually unregulated, except to the extent that they needed a licence for dealing in securities on behalf of *their clients, or perhaps* because they fell within the Department of Trade and Industry's remit for supervising unit trusts. There was no regulation of investment management as such.

This has radically changed, however, with the creation of the Investment Management Regulatory Organisation (Imro), one of the self-regulatory bodies which operate within the orbit of the Securities and Investments Board. The main provisions of the Financial Services Act 1986 came into force last April, and since then investment managers have required authorisation if they are to carry on investment business within the UK.

The biggest immediate uncertainties for fund managers in EC member states arise from the so-called "level playing field" arguments

Imro is the specialist SRO for fund managers, and its lengthy rule-book has imposed various new burdens on managers. For instance, they must comply with minimum capital requirements, and must obey complex "best advice" and "know your customer" provisions.

Detailed regulations cover everything from how share placings or new issues should be allocated between different client accounts to the maximum size of Christmas gifts from stockbrokers.

There is some concern as to how these rules fit in with those of the SEC or the US Department of Labour which administers the Erisa licences. The regulators claim that there is no evidence of serious conflicts, although there are areas of overlap which require attention. The question of customer contracts is one of these.

Another controversial area is that of the regulation of conflicts of interest. The SEC is relatively tough on these, while Imro is weak. This is because the attitudes of Imro have been heavily influenced by the big London merchant banks which have long combined various conflicting activities under one roof. Accordingly Imro rules only require that potential conflicts of interest involving fund managers and associated stockbrokers, corporate finance departments or liquidity management departments should be disclosed, without actually clamping down on them. Some independent fund managers therefore claim they are put at a disadvantage.

This kind of argument is likely to be intensified as the debate moves into Continental Europe, where the "universal banking" type of approach is even more common. Considerable discussion is going on in Brussels to formulate a draft Investment Services Directive, which may be published before the end of the year.

The SIB is concerned, for instance, that the minimum level of capital might be set very high, because it would be designed to cover Continental-type businesses with extensive activities and responsibilities for handling client funds. Such capital requirements might act as a barrier to entry for small firms of investment advisers who were prepared to delegate responsibility for client funds to separate custodians.

Reciprocity is another area of heated debate. Some EC member countries see reciprocity provisions as a means of ensuring that, say, European fund managers are allowed to set up in Japan on a comparable basis to that on which Japanese managers operate in Europe. But many in London fear that reciprocity may prove to be a device through which the City's global development is handicapped, to the potential benefit of other, more domestically oriented, EC financial centres.

In Japan, in fact, authorisation by the Ministry of Finance is fairly widely available to foreign as well as domestic investment managers. But there are still obstacles to access to the more lucrative sectors, such as pension funds or tokkin funds. There is a typically Japanese labyrinth of regulation involving life companies, trust banks, securities houses and independent advisers, all of which have rather different roles.

Back in Europe, the biggest immediate uncertainties for fund managers in EC member states arise from the so-called "level playing field" arguments. If the UK, for instance, imposes tough investor protection rules, British managers may be handicapped compared with those elsewhere in the EC.

To give one specialist example, managers running "emerging markets" funds in the UK are furious over new unit trust regulations which limit the extent to which they can invest in markets such as those of Thailand and the Philippines. Rival funds in Luxembourg are not subject to the same constraints.

In fact Luxembourg is setting itself up as the most permissive fund management centre within the Community. The Grand Duchy has attracted large volumes of money from countries such as Belgium and France, partly on tax grounds (there is no withholding tax on investment funds in Luxembourg). Now Luxembourg funds are about to gain access to the UK market through the EC's UCITS legislation. UK fund managers naturally fear that there will be unfair competition, for instance because unit pricing rules are less onerous than the regulations recently established in the UK. Hedging their bets, many UK investment groups are hastily establishing Luxembourg outposts.

Until now, global managers have only needed to concern themselves with global financial markets. Now they are forced to take account of regulation around the world as well.

Barry Riley

TECHNOLOGY

'Avoid services that add nothing'

THE VIDEO screen is now as significant a business tool as the telephone for the international fund manager.

"Once you could rely on telephone calls to a friendly broker for information, but those days are long gone," says Mr Ben Wrey, joint managing director of Henderson Administration. "Now the speed of dissemination of information means a firm *would be severely disadvantaged* without the technology."

"It is very important," agrees Mr George Yoxall, director, North America region, for Abbey Life in Bournemouth. Abbey makes careful and disciplined use of information technology, yet its managers have access to at least eight major electronic information systems.

This does not imply, however, that each is faced by eight video screens. Data Logic, a UK systems integrator, has created a system for the company which involves a number of services being switched to each screen, using similar technology to that employed by market makers and broker dealers in their multiple position dealing rooms.

Mr Yoxall warns that firms have to exert control in their use of information systems: "It *is all too easy to find yourself* paying for services which add *nothing to the business."*

Most of the services used by fund manager's are, indeed, tried and tested, but they have constantly to evaluate new offerings.

One that is attracting significant attention is "First Call", a service provided by Technical Data International of the US, and available in the UK through International Thomson. Used by both Abbey Life and Henderson, *it provides* electronically a round-up of company comments generated by US brokers' analysts during their morning meetings.

One of the earliest users in this country was the Scottish Amicable Life Assurance Society, based in Glasgow. Mr Robert Elliot, fund manager with Scottish Amicable, says *it* is well used. "It is useful to be able to scroll through to see what people are thinking."

The two most popular services among fund managers in the UK are Topic (Seaq International), the International Stock Exchange's stock quote dissemination service, and Reuter.

There are now some 670 international stocks from over a dozen countries quoted on Seaq International. Distribution can be through the exchange's own Topic viewdata screens, although the information can also be fed directly into a firm'sown computer system, where it can be manipulated to suit the manager's special interests.

Reuter, the largest electronic publisher in the world, offers a wide range of services of interest to fund managers. It is going through a period of rapid technological progress, with the launch last year of its Equities 2000 service and the Triarch 2000 digital dealing station, a product of its acquiring the US-based *Rich* corporation.

Despite a period of slower growth after the 1987 crash, Reuter reports healthy demand for the digital Triarch system. Its real winner at present, however, is "Prism", a low cost, colour video-switching display.

The two most popular services among UK fund managers are Topic, the Stock Exchange service, and Reuter

A number of managers also use Textline, Reuter's database which provides access to information on companies, industries, politics and economics. Reuter is currently expanding the Asian content of Textline, adding a number of major banks and corporations as subscribers and including, for the first time, a domestic source of business information about Korea.

For managers specialising in the US market place, Quotron is as important as Reuter. A very experienced provider of on-line services, Quotron's offering's are high-quality and sophisticated. In recent years, however, it has had to face increasing competition, from Reuter and from the US computing services company ADP. Among its services, it provides complete transaction and quotation data on stocks, bonds, options, mutual funds and commodities.

Datastream is one of the more important information services for the UK fund manager. Formerly owned by Hoare Govett and now a subsidiary of the US information services company Dun Bradstreet, it provides a broad range of services for research and analytical purposes. It has financial databases stretching back to the early 1960s.

According to Mr Michael Perviz, product group manager at Datastream, the company's *strength lies in its data acquisition strategy.* With good coverage of the UK, Europe and Japan, it is now building its expertise in the emerging Far Eastern market.

As well as historical data and analytical tools to manipulate the information, the company provides accounting and asset valuation services. "We cover the middle to the back office," Mr Perviz says.

Fund managers with interests in Japan take the "Quick" *(Quotation Information Service* KK) service, a major real-time provider of market quotations and rates for all of Japan's stock exchanges. Once a service restricted to Japan-based clients, Quick has had its own London office since 1986. Its clients are amused by the fact that information frequently comes through first in Japanese before it can be translated into English, but nevertheless find its view of Japanese prices essential.

Many managers also make use of the modern equivalent of the "friendly broker" – the broker's own on-line information service transmitted over the telephone lines from the brokers' computer. The most popular of the UK based brokers' services seem to be "Dogfox" from Scrimgeour Vickers, now part of the Citicorp group, and "Gemini" from Phillips & Drew.

There is a vast range of information services on offer, including Telerate and Knight Ridder of the US, Pont Data, Finsbury Data Services and Extel, whose investment accountancy service is a market leader.

But does modern technology make you a better fund manager?

"Probably not," according to Mr Elliot, of Scottish Amicable. "But it makes you a competitive fund manager. I think that whether *a fund manager is* good or bad depends on an amalgam of all the decision that he or she takes during the day. Decisions have to be taken so much faster now that, without information technology, it would be impossible to keep up".

Alan Cane

Property's global future

Continued from page 7

those, for example, left with vacant office buildings in Houston and Dallas – shows that detailed local knowledge is necessary before finance can be provided with any comfort. Many funds are not prepared to invest the effort necessary to build up that knowledge, which has to embrace not only local market conditions and practice but the nature of the legal system.

At the same time, funds have generally only a limited amount of finance available for property investment as such. If there are limitations, then it is usually easier to invest what is available at home.

There are, then, existing and severe constraints on the internationalisation of fund property investment. Hitherto, what investment there has been has been done on a bilateral basis. That is, a British or a Japanese fund has invested, for example, directly in the US. There is little history of, say, a British fund raising capital in Germany for investment in Spanish property, although property companies have used the international capital markets to raise funds for domestic acquisitions.

The strongest flow of funds has traditionally been towards the US. It has come in waves – the British in the 1970s, followed by the Canadians, then the Dutch and the Germans and latterly the Japanese.

Salomon Brothers has calculated that Japanese investment in US property rose from \$1.5bn in 1985 to \$4.8bn in 1986 to \$6.8bn in 1987. This year the total could be close to \$10bn. Probably about *40 per cent of* the total comes from Japanese life insurance companies such as Dai-ichi Mutual Life and Nippon Life. But Salomon notes that US institutions Metropolitan Life and Equitable Life "have each provided vehicles for smaller institutional investment through limited partnerships marketed solely in Japan."

The Japanese investment has mainly been directed at a limited number of locations – New York, Los Angeles, Hawaii, San Francisco, Washington DC and Chicago. That is a common factor in international fund property investment: the desire to restrict property purchases *to* established locations.

Significantly, the increasing level of foreign fund investment in the UK property market is centred on the London market. There is little inclination to explore the regional markets.

Although some British funds, like Norwich Union, have long maintained a presence in the French market, the strongest flow of funds recently into and around Europe has been onto the British market. There has been some Japanese investment but not on the scale of the US and there has been a glimmering of US institutional interest through the presence of fund managers like JMB Realty.

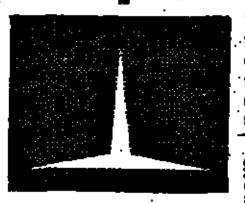
Over the last year the most striking movement has been from Sweden, following the relaxation of capital controls. But insurance companies have been excluded from this remission, although the expectations are that soon all controls will be lifted, presaging a build-up of Swedish funds in the European property markets.

Paul Cheeseright

FINANCIAL TIMES
COMPANIES & MARKETS
Monday November 28 1988

INSIDE

Thorn gets a bright European idea

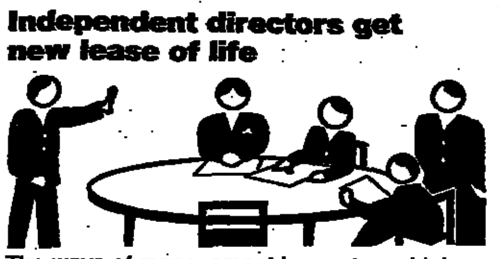


It will be a very long time before bureaucrats enforce common light fittings on the European Community. Still, the lighting subsidiary of Thorn EMI, the UK group, is planning to launch its first "genuinely European fitting" – a move which casts as much light on the evolution of the company as it does on the electrical products market post-1992. Clay Harris reports. Page 32

Double blow to Euromarket

The Eurobond market faces a cautious week after the havoc wrought by Friday's rise in UK interest rates and a tentative weekend Opec accord on production which will rekindle inflationary fears. Page 28

Independent directors get new lease of life



The wave of management buy-outs and take-over bids washing over corporate America has given a new prominence to that Cinderella of the capitalist financial system – the independent, non-executive director. In several bids, tough-minded outside directors have squeezed large additional sums for shareholders out of astonished management groups hoping to buy companies much more cheaply. Anatole Kaletsky, in the Business Column, examines the role of the non-executive. Page 44

Correction
Quadrex Holdings

The Financial Times regrets that its November 25 news reports of the summary judgment obtained by British and Commonwealth against Quadrex did not make it clear that the judgment was on liability only. As was stated in the fuller report of the proceedings on Page 23, damages remain to be assessed. Quadrex is to pursue a vigorous appeal against the judgment on liability.

Market Statistics

Companies in this section

Poised to snatch defeat from jaws of victory

Martin Wolf examines disturbing currents in US trade policy

IS THE US about to snatch defeat from one of history's greatest victories? This is the question I found revolving in my mind following a recent visit to Washington to attend a conference on free trade areas organised by the Institute for International Economics.

In the dark days of the 1930s and 1940s, a group of enlightened policy makers (largely, but not exclusively, American) agreed on the need to restore a liberal international economy underpinned by institutions for multi-lateral economic cooperation. Then, shortly after the Second World War, the economic objective was married to that of containing communism.

The various subsidiary aims of global economic policy – the post-war reconstruction of Western Europe and Japan, the successful development of the Republic of Korea and Taiwan, encouragement of Third World countries to adopt market-oriented policies – all followed from the main objectives. They were the pieces in a global strategic jigsaw puzzle, a puzzle successfully completed in the 1980s.

Too often, the Western alliance is viewed from a military perspective, but defence policy has done no more than hold the field. It is economic success that has not only allowed the military to enjoy their expensive toys but has secured political stability at home and made the Western economic and political model increasingly attractive abroad. Now, with economic liberalisation in India and China and perestroika in the Soviet Union, the victory looks complete.

So a visitor to the US might expect to find the country basking in the warm sum of its historic triumph. One finds, instead, a mood of doubt, even paranoia, about the "unfair" international economic environment. Ironically, the principal adversaries of the US are now thought to be the countries that it helped in years gone by: notably Japan, but also the newly industrialised countries of east Asia, and the European Community.

It is not that the economic performance of the US has been particularly poor. Between 1960 and 1987, US GDP per head rose at an average rate of just under 2 per cent a year. Unfortunately for US self-esteem, the liberal international economic order allowed others to grow still faster. While the US generated 47 per cent of global GDP in 1948 (excluding that of the USSR and Eastern Europe), its share was down to 33 per cent in 1987.

The experience of relative decline is painful. It has been made still more painful by the growing presence of imports in the domestic economy. Worst of all, however, has been the trade deficit of the 1980s, the reaction being not merely protectionism but doubt about the underpinnings of the postwar economic order.

Whatever its rhetoric, the practice of the Reagan Administration has been the most protectionist since that of President Hoover. As I.M. Destler points out in his book, American Trade Politics: System under Stress: "More than one-fourth of US manufactured imports [is] in products now subject to major quantitative restraint. Import controls on all of these products were initiated, or tightened, since 1980."

The public relations machine has made the Omnibus Trade and Competitiveness Act of 1988 appear a victory for liberal trade. This is nonsense. An excellent analysis by Earl Grinols of the Council of Economic Advisers (called Procedural Protectionism) demonstrates the Act's protectionist implications. The syllogism goes: the US would be competitive under fair trade; the US is unable to compete with many foreign suppliers; so foreign suppliers are behaving unfairly.

The evolution of US trade policy in the 1980s is consistent with the findings of a World Bank research programme on the timing and sequencing of trade liberalisation. The major obstacle to trade liberalisation, it was discovered, is difficulties in the balance of payments. Behind those difficulties usually lie undisciplined fiscal policies, as in the US.

What can be more natural than to blame foreigners for one's own failures. I should not have been surprised, therefore, to hear Congressman Richard Gephardt address a dinner organised by the Washington-based Institute for International Economics in the following terms: "The real problem is that America has been forced to abandon its traditional role of providing the capital which fueled development in the Third World, financed the Marshall Plan ... and projected our vision of a progressive capitalism throughout the world." Who, one wondered, has forced the US to save so little?

The reader may feel that Congressman Gephardt's poor showing in the primary campaign demonstrates he is unrepresentative. This is wrong. He may have lost a battle, but he can still win the war. Remember that Messers Dukakis and Bentsen began to recover in the polls when they started to play Gephardt's tune, if in a minor key.

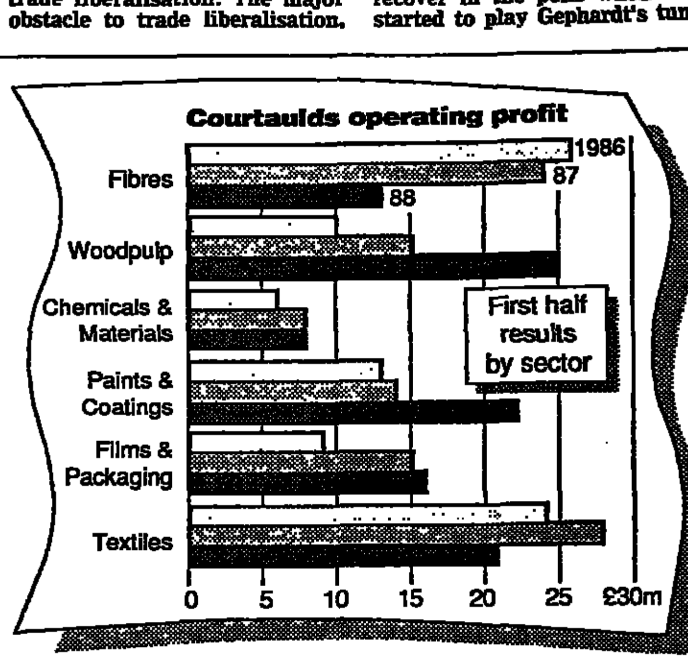
Perhaps more ominous still was a speech by Senator Max Baucus, a senior Democratic member of the Senate subcommittee dealing with trade. In pitching for a bilateral economic agreement with Japan, Senator Baucus takes the Gatt's ineffectiveness for granted. The US must, he asserted, pursue multilateral, bilateral and unilateral approaches simultaneously.

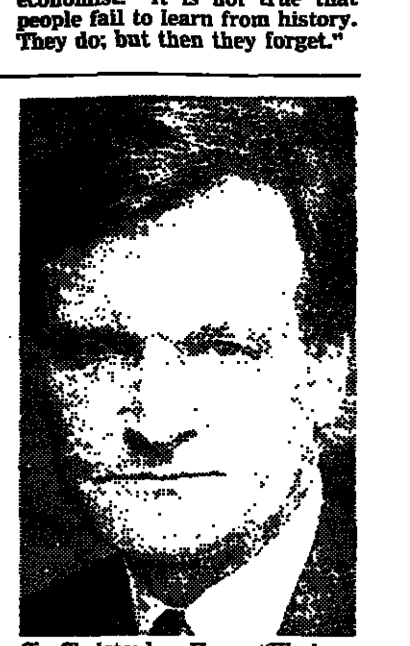
In short, an increasing number of influential Americans now questions the fundamental principles of the postwar economic order. They wish to substitute bilateral reciprocity, as determined by the US, for the Gatt concept of multi-laterally-agreed, non-discriminatory reciprocity. They fail to see that this is a recipe for trade policy chaos.

It would be a strange irony, indeed, if the co-operation generated by Stalin were to fail as (or, perhaps, because) the threat from the East is fading. Leaving Washington behind, I recalled a remark by the late Jan Tumlir, for a long time the Gatt's chief economist: "It is not true that people fail to learn from history. They do; but then they forget."

Back from the brink to face yet another test

Alice Rawsthorn looks at the recent decline in profits at one of Britain's leading industrial companies





Sir Christopher Hogg: "We have proved that we can cope"

Throughout the mid-1980s when British industry was embroiled in the painful process of recovering from recession, Courtaulds, one of Britain's biggest chemical and textile groups, was bandied about as a paradigm of recovery.

In the eight years since Sir Christopher Hogg became chairman, Courtaulds has been hauled back from the brink by radical rationalisation and a long-term strategy now cited as a model of modern management in business school textbooks.

But Courtaulds is in trouble again. Its fibre and textile interests face the same combination of adverse exchange rates and dwindling demand that almost destroyed them in the late 1970s. Last week it announced a fall in pre-tax profits from £102m to £98m for the first half of the year. Analysts expect a further fall from £221m to £200m for the full year.

Hogg's strategy is now being put to the test. The *leitmotif* of his work at Courtaulds has been to ensure that its established fibre and textile businesses were better able to withstand economic events beyond their control, while diversifying into other, less cyclical areas.

At first glance the fall in profits augurs ill for Courtaulds. The underlying trends are more reassuring. The group has suffered from the slump in its traditional activities, but its businesses have been much more resilient than in the past.

Courtaulds' strategy for fibres and textiles has been to drive down unit costs by improving productivity and by withdrawing from commodity markets into value-added areas, where it can claim a competitive advantage over low-cost imports.

As a result, its acrylic fibre plants are now operating profitably at levels which would have been hopelessly unprofitable a few years ago. Moreover, it is making money from acrylics at a time when its chief competitor, Bayer of West Germany, is said to be operating at a loss.

Similarly its troubles in textiles have been restricted to areas – spinning and children's clothing – where the whole industry has suffered. It has been forced to resort to cuts and closures. There have been been 1,860 job losses since the start of the year. But the cuts have been concentrated on plants already identified as vulnerable, where there had been little investment. Courtaulds has been sufficiently confident to continue its expansion into new areas, like intimate apparel fabrics.

Hogg is convinced that the group has passed the test of withstanding competitive conditions. "Our portfolio is light years away from where we were in the late 1970s," he said. "The winds may be blowing against us. But we have proved that we can cope."

The problem is that, in the eyes of the investment community, "coping" is not enough. Even in the days when fibres and textiles flourished, Courtaulds tended to be dismissed by the City as a dull, if worthy, member of the industrial establishment enmeshed in mature markets. Its present problems have probably convinced its critics that their worst suspicions were justified.

The critics also claim that, despite its success in strengthening traditional activities, Courtaulds has been too slow in its expansion into new areas.

In the past two years the group has staged a series of small-scale strategic acquisitions. Its criteria is that the acquisitions should not only be high calibre businesses but will enhance the quality of its established interests.

Porter Paints, the US business acquired last autumn, is a paradigm of the recent acquisitions. The lessons learnt from Porter's high-quality management are now being applied to the other paint companies in the US.

The benefits are already apparent. Porter made a healthy contribution in the first half and the original US paint companies increased profits for the first time in several years.

But it takes a long time for synergistic growth to come to fruition. Hogg expects to see the full fruits of the Porter purchase in three or four years.

Until recently Courtaulds was constrained from accelerating expansion with more ambitious acquisitions by its balance sheet. This summer it erased its borrowings by selling its South African wood pulp business. But Hogg is adamant that the policy of niche acquisitions remains unchanged.

Courtaulds' devotees see this as evidence of an admirable commitment to long-term strategy. Its detractors perceive it as proof that the group is still scarred by the legacy of the Kearton era.

Under Lord (Frank) Kearton's chairmanship in the 1960s, Courtaulds expanded at a frenetic pace in an attempt to combat international competition by constructing a vertically intergrated textile empire.

The vertical vision saved Courtaulds in the 1960s, but brought it close to collapse in the 1970s. The corpses of Kearton's mills still litter the industrial landscape of Britain. His vast textile complex on Merseyside now houses a Hare Krishna meditation centre.

Having lived with the consequences of expansionism, Courtaulds management - or, so say the detractors - now errs on the side of caution. As a result, it has never quite dispelled the City's misgivings that, despite the business school case studies, it still lacks the corporate confidence.

As a result Courtaulds is one of the few stocks on the London market with a share price lower than in the aftermath of last autumn's crash.

Even the *frisson* of the speculative stake held by Mr Kerry Packer, the Australian financier, has failed to salvage it.

Economics Notebook

Coping with self-discipline

By Peter Norman

THE pound's strength following Friday's trade figures and the 1 percentage point jump in bank base rates to 13 per cent was not all good news.

To only a very limited extent was the 0.6 point rise to 77.6 in the Bank of England's trade weighted sterling index on Friday afternoon a vote of international confidence in the ability of Mr Nigel Lawson, the Chancellor, to combat inflation and bring a monthly current account deficit down from October's record £2.43bn level.

Sterling advanced more in recognition that British interest rates are far higher than those in any other major financial sector, including Milan. Three-month money in London now yields 8 percentage points more than in Frankfurt and 8.5 percentage points more than in Tokyo.

In the recent past, Mr Lawson has praised the role of international investors in imposing discipline on nations that run large current account payment deficits.

In the coming months, however, he may find that discipline uncomfortable. For, just as medieval kings found when dealing with their Florentine bankers, international investors are not an altruistic lot and have a nasty habit of demanding more in the form of either income or security at the slightest sign of trouble.

Friday's events have made British economic management more vulnerable than before to new shocks. October's huge trade deficit has devalued recent anecdotal evidence of a slowdown in consumer demand. Financial markets will now want proof in statistical form before accepting assurances that policies are working. As the Government only began to apply the monetary screws with any determination in August, it could be next spring before such evidence is forthcoming.

In the meantime there is a better than even chance of more bad news to come. That is why some City economists on Friday said they half expected another 1 point jump in base rates in the first quarter of next year.

For the purposes of financial markets, it does not matter that statistical evidence – and especially that produced by the British Government – frequently turns out to be wrong. Such errors only come to light after months of delay when economic conditions have changed, often dramatically, in response to market perceptions of the initial reports.

But such statistical deficiencies could turn out to be a serious handicap for Mr Lawson. For the Chancellor, one of the great attractions of monetary policy as an instrument for controlling demand has always been that decisions could be quickly reversed. But this flexibility may be inoperable so long as there is a threat of foreign investors pulling their money out of sterling.

This potential lack of flexibility could be a particularly serious problem for the Government because the success of its policies depends crucially on it getting its timing right.

It wants to curb excessive, consumer-led demand in the economy, thus controlling inflationary pressures and reducing the flood of imports that has plunged the trade balance so deeply into the red.

At the same time, its chosen instrument of high interest rates could exacerbate the trade problem by threatening industrial investment and reducing the competitiveness of British industry abroad.

Underlying the Government's strategy is a belief that consumer demand will get clobbered faster than industrial investment and exports. In favour of this argument, British personal sector debt at around £250bn is now larger than the £200bn of household assets invested in instruments with variable interest rates.

The Government has also drawn comfort from the very strong profit performance of British industry in recent years. It hopes that industry, faced with shrinking domestic demand, will switch its output to meeting foreign demand at only a moderate cost to profit margins while continuing to invest.

Supply-side hopes

However, the scenario of slow demand at home encouraging exports is based on little more than hope that the so-called supply side revolution of recent years has transformed industry's habits. In a study, published on Saturday, Mr Simon Briscoe, senior financial economist of Greenwell Montagu Gilt-Edged, points out that "the significant slowdown of growth in the UK in 1981 and 1984 had no beneficial effect on the trade balance."

Even if the Government's strategy is correct, it is far from clear that it will be able to avoid monetary overkill. Mr Lawson or whoever is Chancellor next year will have to rely a lot on judgment in deciding when to ease the monetary brakes to ensure that industry does not suffer as much as the consumer. After this year's economic developments, it is open to question whether foreign investors will allow the Chancellor freedom to exercise such judgment.

THIS WEEK

US UNEMPLOYMENT figures, which attracted much attention during the summer, are likely to feature strongly again this week, possibly providing a focus for speculation about dollar trading.

The figures have been used by analysts as a pointer to the strength of economic growth. Friday's figures will be the first major economic statistics for November.

For October the employment report showed an unexpectedly large rise in non-farm employment of 325,000. The civilian unemployment rate fell to 5.3 per cent, the lowest since 1984.

Also in the US, personal income and personal consumption figures for October released on Wednesday will give a guide to the strength of consumer demand – and consequent tug on imports and inflation. The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a 0.7 per cent rise in incomes and a 0.5 per cent rise in consumption.

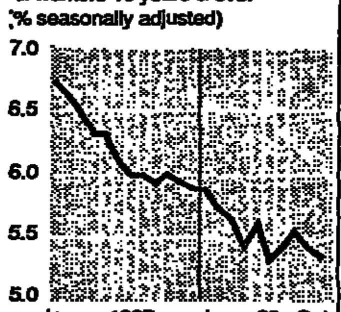
Leading indicators for October are published on Thursday. The indicators look forward three months and include factory output, money supply, consumer credit and prices.

There is a dearth of economic statistics in the UK. After last week's current account figures, however, financial markets are likely to listen carefully when Mr Nigel Lawson, the Chancellor, opens for the Government in tomorrow's House of Commons' debate on the economy.

Analysts will be looking for soothing words on the trade deficit and inflation but also for hints of any modification to the Treasury's exchange rate and interest rate policy.

Official monthly reserves figures on Friday will show the extent UK Government holding of foreign currencies which could be used to support sterling. Action to support the dollar during November could have led to a modest rise.

US Unemployment
All workers 16 years & over (% seasonally adjusted)



In Japan, all eyes will be on the capital flows figures in the October balance of payments report due on Thursday.

It is likely to show a sharp drop in outward investment flows, a factor caused by, and contributing to, the weakening of the dollar.

Today US merchandise trade in three months to September on balance of payments basis. Japanese industrial production in October.

Tomorrow US corporate profits in three months to September. Revised Gross National Product figures for the three months to September (2.5 per cent rise). GNP deflator in third quarter (4.4 per cent rise). UK Bank of England final money supply figures for October. Japanese October housing starts.

Wednesday UK new vehicle registrations in October. Overseas travel and tourism in September. US two-year Treasury bill settlement.

Thursday US construction expenditures for October

Friday US manufacturing, shipments, inventories and new orders for October. Five-year Treasury bill settlement. Japanese new car registrations for October. UK housing starts in October

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Beazer to save $25m in deal

CITIBANK unveiled details of the widely touted $2.3bn refinancing for the protracted and hostile effort by Beazer, the UK construction group, to acquire US-based Koppers, the aggregates and chemicals group – finally allowing Beazer to take its new subsidiary on to its balance sheet.

And while the refinancing is expected to save Beazer $25m per year in interest payments, the new funds have not come cheaply.

Indeed, a careful look at the margins – handsome by any standard – illustrates starkly why, despite all public admonitions, banks are willing to lend large sums for highly leveraged hostile takeovers.

The loan is divided into two equal tranches of $1.15bn – a seven-year term loan and a five-year revolving credit. The term loan begins amortising in December 1989 so that it has an average life of 4.82 years. The margin on the term loan is 1½ points while on the revolver it is a whopping 1¾ points.

However, the margin on the revolver falls back to 1½ points once the level of asset sales reaches $600m. That number is just short of what Beazer has said it expects to raise from the sale of Koppers' chemical unit, for which it is currently seeking a buyer.

Also, the amount available under the revolver will gradually fall to $750m as assets are disposed of by Beazer.

Significantly, the terms of both facilities reward Beazer for achieving more prudent gearing and debt cover ratios.

The fees can fall to as low as 50 basis points if the gearing ratio falls to 50 per cent and if pre-tax profits rise to 3½ times total debt service costs. Also, loan covenants contain minimum liquidity and cash flow ratios as well as a minimum level of net worth to be attained.

Still, Beazer has a way to go before achieving these savings. Its own financial advisers have estimated that even after the sale of Koppers' chemical unit, the gearing ratio will still be 120 per cent.

There is also a commitment fee of ⅛ points, while management fees range from 57½ points down to 17½ points.

Completion of the refinancing – set to be approved by shareholders on November 30 – will replace the off-balance sheet financing vehicle, known as BNS, that had been used for the acquisition.

Citibank, as arranger, is an underwriter of the package, along with National Westminster Bank, Barclays Bank and Mellon Bank.

Citibank is also arranging a refinancing of an earlier acquisition package, this one for Montedison USA, the American subsidiary of the Italian chemicals manufacturing conglomerate. The funds are intended to replace an $800m one-year facility used partially to finance the borrower's purchase of Himont, the US propylene manufacturer.

The new facility is a seven-year amortising revolving credit having an average life of 5.3 years. The margin is 27½ basis points over Libor in years one and two, rising to 37½ basis points and then to 50 basis points.

Meanwhile, aircraft financings continue apace. Chase Manhattan is arranging a $220m facility for Gulf Air, owned by the governments of six Middle Eastern states. Funds will be used to purchase four Boeing 767-300ERs – wide-bodied aircraft with extended range capacity. The loan facility has a 12-year life, although with amortisations average life is 9.24 years.

Margins are 50 basis points in the first eight years, rising to 60 basis points thereafter. There are management and commitment fees, each for up to 25 basis points.

Gulf Air's financing comes on the heels of a $260m financing for Braathens, the Norwegian airlines, announced last week, and a $1bn financing for United Airlines being syndicated in the US.

Bankers specialising in aircraft finance say that many more such deals, most of which involve sale and lease-back arrangements, are in the pipeline. In particular, bankers are awaiting the decision of Lot, the Polish state airline, to name an arranger for its first purchase of Western aircraft.

Norma Cohen

INTERNATIONAL BONDS

UK rates rise and Opec output move wreak havoc

THE EUROBOND market will be opening cautiously this morning as dealers make some attempt to pick up the pieces following the havoc wrought on Friday by the combination of UK interest rate hikes and a tentative Organisation of Petroleum Exporting Countries production accord which renewed inflationary fears, bringing the prospect of similar monetary tightening in the US into relief.

All in all, it was not a memorable week on the Eurobond market, which had drifted quietly lower, with both Japan and the US absent for one day, only to be rudely awakened on Friday when UK government securities fell to their lowest levels since September on the news that Britain's monthly current account deficit had quadrupled to a record £2.43bn, pushing base rates up by a full percentage point to 13 per cent.

The Bank of England's moves augured badly for the US Treasury market where prices also plunged, although dealers said business was extremely thin, with many US-based participants still away from the desk following Thursday's Thanksgiving holiday. Yet the lack of liquidity seen on Friday could also have unduly exaggerated price movements and few dealers were expecting a clear picture to emerge before US markets re-open fully after the weekend.

Nevertheless, a novel seven-year issue for Skandinaviska Enskilda Banken did emerge on Friday to the surprise of many senior syndicate managers.

It was the first issue in the sector to carry a call option for over a year and also the highest coupon for a triple-A rated borrower, at 10 per cent, seen in the sector for some time.

Lead manager Bankers Trust International said the fairly flat yield curve had facilitated the incorporation of the call after four years by making the bonds look relatively attractive at both maturities.

Using the value of the call option – which financial engineers at other houses estimated could have been as high as 30 basis points – the lead manager was able to increase the absolute yield of the bond and thus achieve a 10 per cent coupon.

It was this luring coupon level, backed by the prime credit rating of the borrower, which was reportedly the major factor behind strong sales of the issue, particularly into the Far East early on Friday.

The lead manager said encouraging demand had also been seen in the Middle East and from the Continent, where call options are traditionally shunned.

The issue was launched at an initial yield margin of 71 basis points over comparable Treasury securities and although the deal slipped outside its total fee level as secondary markets slid in the afternoon, the spread over Treasuries was being held fairly steady around its launch levels.

Notwithstanding a handful of new dollar straights last week, including the anticipated and generously priced Japan Highway and the Australian Wheat Board's market debut, the week's main story was the Canadian dollar market as new issue teams endeavoured to get issues out to retail clients before their traditional pre-Christmas wind down.

Although the short-term outlook for the hard currency sectors such as US dollars and D-Marks is still far from clear, activity in the traditionally retail-oriented sectors such as Canadian and Australian dollars and Ecu is now expected to tail off towards the year-end.

It is not difficult to see why the first two sectors have retained their popularity with smaller Continental accounts – in the year to date, they have consistently provided the highest returns.

According to Salomon Brothers World Government Bond Market returns, Australian bonds have provided 25.3 per cent, followed by Canada with 17.2 per cent.

Both sectors experienced a similar phenomenon this week when sharp falls on the domestic bond markets gave rise to markedly more attractive swap opportunities, which many houses were swift to exploit.

The two-year Australian dollar deal for Electrolux, the Swedish electrical group, via Nomura International fell into this category. The lead manager apparently found specific pockets of demand for the issue.

However, it was considered to be substantially mispriced by sector specialists not involved in the deal, one of whom noted that while the syndication strategy relied heavily on relationships, many significant market makers stayed out.

While Montreal Trustco was commended in some quarters for having the guts to be the first to brave the Canadian dollar sector after a protracted gap in issuance due to nerves ahead of the federal election, the deal did not meet with the success seen by many of those which gingerly followed it. By the end of the week, swap rates had turned to facilitate more attractively priced issues and it was not until Friday that the market saw the top names it had been awaiting all week.

RBC Dominion Securities brought a small but nevertheless well-received issue for Canada's FBDB which carries a triple-A rating by virtue of its call on Canada's revenue funds.

Denominations on the deal were small and it is expected to be placed with the customary retail accounts in the Benelux and Germany.

Morgan Guaranty also tapped the sector via J.P. Morgan with a more substantial C$150m issue which carried an attractive 11 per cent coupon, made possible by the current inverse yield curve and guaranteeing strong retail demand. Credit Suisse First Boston was also commended for bringing a C$100m deal for Exxon, one of the best corporate names in the world, which despite its exceedingly short maturity reportedly attracted holders of several large private portfolios for whom the deal represented a profitable way to diversify.

Dominique Jackson

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,330.4	218.4	725.0	9,188.0
Prev	4,861.8	1.0	0.0	10,895.2
Other	3,314.7	0.0	77.1	1,243.5
Prev	3,853.0	8.9	1,299.6	1,542.3
Secondary Market				
US$	13,530.0	1,142.1	5,946.2	5,424.8
Prev	17,910.8	1,143.2	6,160.1	5,237.6
Other	17,808.9	971.3	4,335.7	21,797.6
Prev	21,259.6	1,102.0	6,751.8	29,454.9

	Cedel	Euroclear	Total
US$	9,307.4	28,189.5	37,496.9
Prev	11,640.3	34,569.4	46,209.7
Other	22,328.0	27,220.8	49,548.8
Prev	28,724.1	36,548.0	65,272.1

Week to November 24, 1988 Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Norges Kommunalbank♦	70	1990	1¼	9⅛	100.825	Yamaichi Int. (Eur)	8.342
Australian Wheat Board♦	200	1993	5	9½	101⅝	SBCI	9.061
Trips Series 'A'(a)‡♦	23	1992	4	0.175	100.1	Toyo Trust Int.	-
Goldman Sachs(US)(c)‡♦	450	1990	2	$\frac{3}{16}$	100.15	Goldman Sachs Int.	-
Japan Highway♦	180	1996	7	9⅝	101.60	Bank of Tokyo	9.304
Nissho Iwai Corp.Φ	300	1992	4	(4¾)	100	Nomura Int.	★
Skand. Enskilda Bkn♦	150	1996	7	10	101⅞	Bankers Trust Int.	9.620
NKK Corp.Φ	400	1992	4	(4½)	100	Yamaichi Int. (Eur)	★
NKK Corp.Φ	300	1992	4	(4½)	100	Singapore Nomura	★
CANADIAN DOLLARS							
Fin. for Danish Ind.♦	75	1991	2	10⅜	101⅜	CCF	9.958
Montreal Trustco♦	150	1993	5	10⅝	101½	Goldman Sachs Int.	10.227
Exxon Capital Corp.♦	100	1989	1	10½	100.85	CSFB	9.569
Bayerische LB Int.♦	75	1993	5	10½	101⅛	Bayerische Landesbank	10.202
Union Bank of Norway♦	75	1991	2	11¼	101⅛	J.P. Morgan Secs.	10.597
Fed.Bus.Dev.Bk Canada♦	50	1993	4½	10½	101.80	RBC Dominion Secs.	9.949
Mgn.Guaranty Trust♦	150	1991	2	11	101¼	J.P. Morgan Secs.	10.277
AUSTRALIAN DOLLARS							
Skopbank (Cayman Is.)♦	65	1989	1	14¾	100.95	Banque Paribas	13.670
Indosuez Australia♦	50	1992	4	14¼	101¾	Hambros Bank	13.654
Electrolux♦	100	1990	2	14⅜	101.15	Nomura Int.	13.580
Dresdner (S.E. Asia)♦	75	1992	3	14	101¼	Dresdner Bank	13.466
D-MARKS							
Andelsbanken♦	140	1995	7	6	100	DG Bank	6.000
Berliner Bank Lux.♦	75	1994	5	5½	101	Berliner Bank	5.267
Belgium♦	300	1993	5	5¼	101	WestLB	5.019
SWISS FRANCS							
Meitec Corp.★★§	50	1993	-	(½)	100	Royal Trust Bk(Switz)	★
John Deere Credit♦	145	1999	-	5	100¼	Merrill Lynch C.Mkts	4.903
Organ Needle Co.★★♦	10	1993	-	4⅝	100¼	Fuji Bank (Schweiz)	4.568
NERSA♦	150	1999	-	4¾	100¼	UBS	4.713
Econocom Int.NV(e)★★♦	40	1993	-	3½	100	Credit Suisse	3.500
Seiren Co.★★§	60	1993	-	(½)	100	Bank Leu	★
Aichi Sharyo Co.★★§	50	1994	-	(½)	100	Handelsbank NatWest	★
ECUs							
Credit Foncier(b)♦	100	1994	5½	7⅝	101½	CCF	7.269
EIB(d)♦	100	1995	7	7¾	101⅝	Banque Paribas	7.444
STERLING							
Lloyds Bank♦	100	1998	10	11⅞	101½	Merrill Lynch	11.119
PESETAS							
EIB♦	12½bn	1995	7	11.4	100	B.Esp.Can.de Credito	11.400
ESCUDOS							
EIB(g)♦	5bn	1997	9	13½	100	B.Portugues do Invest	13.958
LUXEMBOURG FRANCS							
Banque CSIA★★♦	300	1993	5	7½	100¼	BGL	7.438
D'Ieteren Trading BV★★♦	300	1994	6	0	65½	Credit Europeen	7.307
FRENCH FRANCS							
Interfin.Cr.National(f)♦	300	1993	4½	9¼	103⅛	CCF	8.241
YEN							
Austria♦	30bn	1994	5	4¾	101⅝	IBJ Int.	4.381
Cariplo♦	4¼bn	1992	4	0	85.965	Nomura Int.	3.853

★Not yet priced. ★★Private placement. ΦWith equity warrants. §Convertible. ‡Floating rate note. ♦Final terms. a) 0.175% over 6m Libor. b) Fungible with previous issues - original issue launched March 1987. c) $\frac{3}{16}$ over 3m Libor. d) Fungible with issue launched in Oct. 1988. e) With going public warrants. If not exercised or if company does not go public can be redeemed at 111% to yield5.47%. f) Fungible with two previous issues. g) 13½% first three years, reset after three and six years. h) Launched in Asia. Note: Yields are calculated on AIBD basis.

كاملة من الاصل

This announcement appears as a matter of record only.

New issue 17th November, 1988

Can. $100,000,000

Genfinance Luxembourg S.A.

(incorporated in the Grand Duchy of Luxembourg with limited liability)

10⅞ per cent. Guaranteed Notes due 1993

unconditionally and irrevocably guaranteed as to payment of principal and interest by

Generale Bank

(incorporated in the Kingdom of Belgium with limited liability)

Issue Price 101⅞ per cent.

Union Bank of Switzerland (Securities) Limited	Generale Bank
Amsterdam-Rotterdam Bank N.V.	Bankers Trust International Limited
ScotiaMcLeod Inc.	Wood Gundy Inc.
Algemene Bank Nederland N.V.	ASLK-CGER Bank
BNP Capital Markets Limited	Banque Bruxelles Lambert S.A.
Banque Générale du Luxembourg S.A.	Banque Internationale à Luxembourg S.A.
Crédit Commercial de France	Crédit Communal de Belgique S.A. /Gemeentekrediet van België N.V.
Crédit Lyonnais	Credit Suisse First Boston Limited
Creditanstalt-Bankverein	Deutsche Bank Capital Markets Limited
Dresdner Bank Aktiengesellschaft	Goldman Sachs International Limited
Kleinwort Benson Limited	Kredietbank International Group
J.P. Morgan Securities Ltd.	RBC Dominion Securities International
SBCI Swiss Bank Corporation Investment banking	Société Générale

This announcement appears as a matter of record only.

New issue 13th September, 1988

Can. $75,000,000

KB

Kredietbank International Finance N.V.

(incorporated with limited liability in the Netherlands Antilles)

10¼ per cent. Guaranteed Notes due 1991

unconditionally and irrevocably guaranteed by

Kredietbank N.V.

(incorporated with limited liability in Belgium)

Issue Price 101⅛ per cent.

Union Bank of Switzerland (Securities) Limited	Kredietbank International Group
Bank Brussel Lambert N.V.	Banque Paribas Capital Markets Limited
Crédit Commercial de France	Generale Bank
Westdeutsche Landesbank Girozentrale	Wood Gundy Inc.

This announcement appears as a matter of record only.

New issue 30th August, 1988

£60,000,000

BRISTOL & WEST
BUILDING SOCIETY

(incorporated in England under the Building Societies Act 1986)

10⅞ per cent. Subordinated Bonds due 2000

Issue Price 98¾ per cent.

Union Bank of Switzerland (Securities) Limited	Phillips & Drew Securities Limited
Barclays de Zoete Wedd Limited	Baring Brothers & Co., Limited

Chase Investment Bank

This announcement appears as a matter of record only.

New issue 1st November, 1988

Can. $75,000,000

CERA

CERINVEST N.V.

(incorporated with limited liability in Amsterdam, the Netherlands)

10¾ per cent. Notes due 1991

unconditionally and irrevocably guaranteed as to payment of principal and interest by

CERA c.v.

(a co-operative company incorporated with limited liability in Belgium)

Issue Price 101.40 per cent.

Union Bank of Switzerland (Securities) Limited

CERA Spaarbank	Bank Brussel Lambert N.V.
Amsterdam-Rotterdam Bank N.V.	ASLK-CGER Bank
BACOB Savings Bank s.c.	Banque Générale du Luxembourg S.A.
Banque Internationale à Luxembourg S.A.	Banque Paribas Capital Markets Limited
Caisse Centrale des Banques Populaires	Caisse Nationale de Crédit Agricole
Crédit Commercial de France	Crédit Communal de Belgique S.A. /Gemeentekrediet van België N.V.
Generale Bank	Genossenschaftliche Zentralbank AG-Vienna
Kredietbank International Group	Rabobank Nederland
RBC Dominion Securities International	Société Générale

Wood Gundy Inc.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Message from higher short rates

THE US money markets are sending out powerful signals.

Last week, the US Treasury touched the markets for short- and medium-term funds. The new three-month Treasury bills offered at the regular weekly auction on Monday were priced at 7.97 per cent, with the new six-month bills at 7.99 per cent. These were the highest short-term rates since auctions in the spring of 1985.

On Tuesday and Wednesday, the Treasury sold two-year and five-year notes. The two-year issue went out at 8.88 per cent and the five-year at 8.97 per cent, much higher than expectations even a week ago.

But there were no such increases for longer-dated issues. The 30-year bonds auctioned on November 17 were quoted for most of last week at or around their issue yield of 9.10 per cent. In 30 years anything can happen, but investors inclined to lend their money to the Federal Government for that long are getting no sort of compensation for their risk. The spread between yields on one-year and 30-year bonds is down to just over 40 basis points (or 0.40 of a percentage point), against 76 a week ago and 196 at this time last year.

This unusual bunching of yields, known as a flat yield curve, generally means that an economy is about to slow, which will bring credit demand and inflation to a halt. At the moment, there are some special pressures pushing short rates up and keeping long rates low in the US. Fears that ever bigger leveraged buy-outs will further erode the quality of US corporate debt have driven cautious corporate bond investors into the government market, where they have depressed the yields of long-term Treasuries. This is also the time of year when corporations and banks are supposed to borrow short to tidy up their year-end balance sheets for stockholders.

But these are trivial reasons. The real problem is that US markets are thoroughly convinced that the Federal Reserve wants to tighten credit conditions by edging up the near-term rates that it can manipulate.

There is no evidence yet that the Fed has started tightening. Federal funds, the money market rate most amenable to official tinkering, were quoted last week in a range of 8.3 to 8.4 per cent, unchanged since mid-October, although a good 150 basis points higher than before the last big Fed tightening in March.

An estimate of third-quarter economic growth will be published tomorrow. This is expected to be in the range of 2.7 per cent. There is nothing very alarming for the Federal Reserve or bond investors in this sort of growth, even for the summer months.

But recent reports suggest that the economy is beginning to roll again, and too fast for the Fed's liking. Strong economic statistics for October in job creation, retail sales, industrial production and housing starts were offset by only one weak series, for durable goods orders. Since the employment report came in on November 4, showing 100,000 new jobs in manufacturing, the bill and short-term bond markets have been under steady pressure.

The markets are looking to the Federal Reserve because they can hope for no immediate reduction in the push to the economy from the budget deficit. While Mr Alan Greenspan, the Federal Reserve chairman, has warned in bleak terms that the deficit must be tackled, the incoming Bush Administration has yet to spell out what it means, if anything, by its pledge of a "flexible freeze" on spending.

The valedictory budget sums put out by the Reagan Administration on Wednesday look wonderful: a reduction in the 1990 deficit to $100bn through tinkering with Medicare and other programmes but with no tax increase. This would be on target as established by the Gramm-Rudman budget-balancing law, but may well be fantasy.

The economy and prices are getting another unhealthy kick from the falling dollar. The mood in the foreign markets is so bearish that it seems only a *matter of time before the dollar* slips under its low against the yen, the Y120.25 last seen on January 4. A year which might have been used to improve US international credit has been well and truly wasted. In these circumstances, the markets are undecided only on when the Federal Reserve will tighten. Mr David Jones, money market economist at Aubrey Lanston, believes the Fed funds rate will creep up through December with a discount rate rise in the new year to "catch up."

In the corporate bond market, there was one issue of significance. Northwest Pipeline offered $100m in 30-year debentures with special new protection against a fall in credit quality through a leveraged takeover or buy-out. Under a special indenture, known as a "poison put," Northwest is required to call the bonds at par or reset the interest rate to restore them to par if certain "designated events" occur in the next 10 years.

These designated events range from a full merger to a change of control for just 30 per cent of the stock. The put is also triggered if Northwest buys back 30 per cent or distributes the equivalent of 30 per cent.

The issue sold well. Traders say the poison put saved *Northwest a little on yield*, which was 10.65 per cent. But without it, nervous corporate bond investors might never have taken the issue.

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.38	8.32	8.25	8.32	6.27
Three-month Treasury bills	8.04	7.92	7.44	7.92	5.14
Six-month Treasury bills	8.13	7.93	7.59	8.04	5.74
Three-month prime CDs	9.20	8.85	8.48	8.85	6.77
30-day Commercial Paper	8.40	8.36	8.10	8.36	6.57
90-day Commercial Paper	8.48	8.51	8.10	8.51	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	101⅛	-⅜	9.16	8.97	8.70
20-year Treasury	98¼	-⅜	9.28	9.13	8.89
30-year Treasury	98⅛	-⅜	9.17	9.14	8.91

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1983 = 100	24/11/88	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.73	4.51	147.38	142.41	143.79
Government Bonds	149.17	4.13	148.63	142.04	144.45
Municipal Bonds	149.13	4.90	148.92	144.48	145.28
Govt.-guaranteed Bonds	150.12	4.94	149.92	146.09	146.76
Bank Debentures	140.73	4.44	140.58	137.18	137.87
Corporate Bonds	146.52	5.48	146.37	143.89	143.64
Yen-denom. Foreign Bonds	149.92	6.25	149.73	147.27	144.64
Government 10-year†	4.82		4.86	5.40	4.97

† Estimated par yield

Source: Nomura Research Institute

Dublin exchange on target

DUBLIN'S proposed international futures exchange, the European Mercantile Exchange, is on the way to reaching its minimum sub*scription* level *and* will *open* for business in July next year as planned.

The EME's current offering of 200 shares at I£25,000 each closes on Wednesday.

Mr Joseph Sims, managing director, said: "*The success of* our offer has been spurred on by the recent interest of central banks in Ecu treasury bills. We are seeing a tremendous amount of interest in our Ecu futures and options contracts from European institutions. The majority of the London Ecu market makers now hold seats."

Mr Sims said considerable interest was also seen from leading US financial institutions which were contemplating moving some of their existing European operations to Dublin to take advantage of *attractive tax incentives* offered to companies using Dublin's new International Financial Services Centre.

Dominique Jackson

UK GILTS

Index-linked sector hogs attention

THE GILTS market received the sort of shock it could have well done without last Friday, with the announcement of a £2.4bn current account deficit in October, taking the cumulative position to within a whisker of the Treasury's full-year forecast of £13bn.

The view in the market was that 13 per cent bank base rates would be sufficient to bring about the necessary slowdown in domestic demand. There was also the belief that we have seen the peak in the monthly trade numbers, although there will still be more £1bn-plus deficits.

Sterling is the key, but another move upwards in base rates would seem unlikely. The trigger on base rates has been huge current account deficits; what chance another monthly figure in excess of £2.4bn?

If the answer is "unlikely" then the market, which is a point cheaper at the long end and around 1½ points cheaper at the short end, might be looking inexpensive.

* * * *

THE RISE in base rates enlivened what had been a fairly dull market for most of the week. The conventional market for gilt-edged securities had been marooned somewhere between *ennui* and death.

The index-linked sector, that unique and somewhat peculiar market, however, continued to provide the main source of interest. The conventional market fell a point on Friday after the trade figures; the index-linked sector by around ¼ of a point.

It tends to move in fits and starts, often depending on the investment preference of just one institution. Since September, however, there has been a major move in the market. Real yields (assuming 5 per cent inflation) have fallen from around 3.9 to 3.7 per cent.

To most in the market it comes as no surprise that the change in the valuation of index-linked gilts coincided with an acceleration in the Bank of England's buying-in activities of conventional gilts.

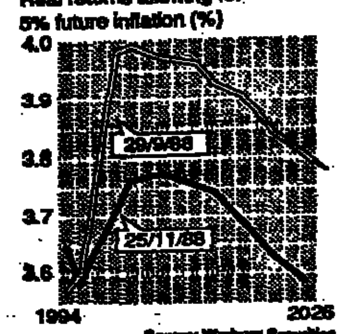
As the yield on conventional gilts got squeezed by the Bank's activities at the same time that inflation expectations over the short-term, at least, deteriorated, the implicit real yield on conventionals began to look increasingly out of line with what an investor could obtain in the index-linked sector. Not that index-linked are the boon they may initially seem to be.

The indexation of capital and income to the retail prices index together with a guaranteed real yield of 2½ per cent is superficially attractive.

The problem has been that, from the outset, the market has demanded much higher real yields and that long-term holders have suffered a substantial capital loss. In an age of regular performance reviews there is often a temptation to cuts one's losses and run.

Index linked stocks

Real returns allowing for 5% future inflation (%)



Source: Warburg Securities

The combination of asymmetries in valuation leading to investment or disinvestment can, therefore, lead to some fairly lumpy market conditions. It is in this context that the Bank's activities should be understood.

According to some large market makers, the Bank has been prepared to smooth the workings of the market in cases where, for example, an investor wants to unwind a large position in index-linked securities. To do the whole amount through the inter-dealer broker system would lead to a substantial fall in what is a fairly illiquid market at the best of times.

Although there is no precise rule of thumb, the Bank may take a fair slice of the order on its own books. But it usually gets fed back out when demand presents itself. Thus, the Bank's activities reflect market management rather than funding policy.

With the market set to contract over the short term, index-linked gilts will by definition rise as a proportion of the market's total value. It has taken eight years for index-linked to account for 10 per cent of the total capitalisation of the market; with the pace of redemption and buy-in of conventional gilts the growth of indexed-linked gilts' share of the market will accelerate.

Even if, however, it turned out to be the case that, by dint of continuingly large Budget surpluses, the entire gilts market were to be redeemed index-linked gilts would be the last to be bought back.

The Treasury likes index-linked gilts. It fought hard for them in the early 1980s and it is their insurance premium against a future Government that would want to take its eye off the control of inflation.

Indeed, there is a persuasive reason why Government's may want to watch their performance on inflation. In 2016 there is only one redemption, the 2½ per cent index-linked. A nominal £1.7bn are currently outstanding, but the redemption cost, assuming 5 per cent inflation, is nearly £9bn. At 10 per cent inflation, the cost to the Treasury is £25bn.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on NOVEMBER 25

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Nixdorf programs for a return to growth

Andrew Fisher on how a one-time German high flier is tackling current difficulties

Nixdorf Computer, a former high flier on West Germany's corporate scene, has come down to earth with a jolt this year, hit by a marked slowdown in new business, higher component costs and lower selling prices, and rapid changes in an increasingly crowded market.

Keenly aware that concern among investors about Nixdorf's future has intensified recently, the company has been laying out its future strategy, explaining why times are much harsher than expected, and describing changes in its corporate approach aimed at encouraging more profit-oriented attitudes among its employees.

While it has been apparent this year that the company was in difficulties, their full extent is only now becoming clear. "Margins are terrible," says Mr Klaus Luft, 47, the chairman. Group net profits of Nixdorf, up by 19 per cent last year to DM264m ($160m), will be far lower in 1988 and 1989. Asserting that the company has a "clear target" to climb back over the DM250m mark, he does not expect this to occur until the early 1990s.

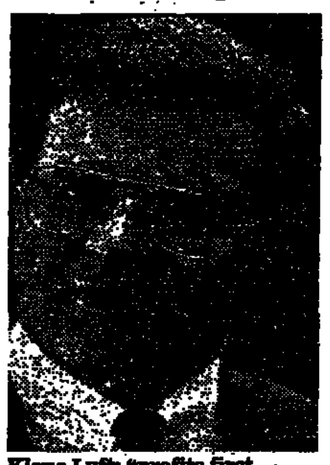
By that time, Mr Luft hopes that Nixdorf's change in strategy will be paying off. It has reorganised itself to serve more effectively such sectors as banking, retailing, small- and medium-sized businesses and institutions. And since more users want systems from a variety of suppliers conforming to common industry standards, Nixdorf aims to put less emphasis on its own equipment. Instead, it will offer customers an all-embracing service in which different products will be integrated into individual systems with the necessary software.

Yet until the benefits show through, Nixdorf will still be struggling. As it works on new products and continues existing programmes, its overlapping research and development costs add nearly DM200m a year, although these will recede in 1989. For a company that late last year was still forecasting a doubling of sales every five years, the humbling of its fortunes has come as a shock, both inside and outside Nixdorf. It has sought to keep investors partly in the picture by moderating its traditionally optimistic tone in 1988. Earlier this month, Nixdorf admitted that its dividend would have to be cut.

Setting out the strategy being adopted by Nixdorf to counter and eventually profit from the rapid changes in the market, Mr Luft says that the growth-oriented company has to undergo a cultural change. "We analysed ourselves. We saw in some areas that there was too much complacency." The group is now more aggressive in cutting costs and aims to cut its break-even level in 1989.

Observes Mr Luft: "Some people thought growth of revenues was a target." Now, "we say profits first and then revenue growth. So we had to reduce our revenue growth objectives to make it clear to people that we want to get the highest profitability." He reckons that turnover will show increases of only between 5 and 10 per cent this year and next. To inculcate greater profit-mindedness, Nixdorf plans to bring in a stock option plan through a debt issue convertible into shares after four years.

"We want everybody to think like a shareholder," comments Mr Luft. He did not say how much the exercise would raise for the company. Mr Sven Kado, the finance director, said it was not primarily a fund-raising exercise, but one designed to motivate employees more, especially top managers. In the US, he notes, stock options are a common practice.


Klaus Luft: "profits first and then revenue growth"

Another part of Nixdorf's new cost-conscious strategy is designed to reduce its ownership of buildings and finance its DM1.5bn property programme for the next five years without straining the balance sheet, which has a 62 per cent equity ratio. Thus it plans to set up a quoted fund in Luxembourg to handle its future property needs. This could produce some DM300m in the first stage, which Mr Kado says Nixdorf would use to pay off its present DM200m or so of borrowings, and possibly even to help finance the dividend, if necessary.

The decision to throw less weight behind sales growth and more behind earnings and leaner financial management comes after several years of heady expansion for Nixdorf. The 1987 turnover of DM5.1bn was more than triple that of 1980. But it was already a less startling 13 per cent above the 1986 level, reflecting the impact of the strong D-Mark and the gradual onset of harsher business conditions.

Even as late as this August, Mr Luft was expressing the hope that dividend continuity could be maintained – it paid DM10 a share for 1987 – while giving no details of the profit trend. He did repeat, however, that competition had become stiffer and more unit sales were needed to produce the same growth as before.

Since then, however, the market has turned even more sour. In the banking sector, which accounts for some 30 per cent of revenues, new computer-based installations are increasingly being delayed. Recently, three banks postponed a total of some DM100m in new orders, Mr Luft said. The retail market is showing expansion, but the systems here are less sophisticated, with lower profit margins.

Also hurting Nixdorf in the second half of this year has been the increase in computer chip costs. This will hit the group totally in 1989, Mr Luft points out. Moreover, prices of some Nixdorf products have plummeted by around 35 per cent this year. In some product markets, he adds, "we have been showing 25 per cent more volume for zero D-Mark growth."

In the past, Nixdorf has hired extensively to propel itself along a continued growth track. But, as with sales, the group has reined back its ambitions. "People said our culture was to create new jobs. Sure, I still think it's an entrepreneurial target to create jobs, but it is not the first priority. So now, we say we have to make the number of jobs we have more productive."

Having hired 3,900 new staff last year and 1,600 in 1988, total employment of around 30,000 worldwide will ease as people leaving are not replaced. This will especially apply on the group's manufacturing side.

This now accounts for 20 per cent of the total and could fall to around 15 per cent, both because of technological advances and the switch of emphasis to the partly consultative role of providing solutions based on such industry-wide standards as Unix, rather than complete Nixdorf systems.

Mr Luft reckons the group's move to products and services based on standards will be helped considerably by the size and spread of its staff, some 60 per cent of whom are concerned with marketing and services. In Europe alone, he stresses, Nixdorf has more than 4,000 people skilled in applying software to specific solutions. As banks, insurance companies, stores and other users demand more sophisticated and flexible systems to extend their range of services, Mr Luft sees important chances for Nixdorf in its main markets.

But as his colleague, Mr Kado, states: "We have never before faced such risks as we do at the moment." Now, "we are fighting for a profit." Nixdorf is not suffering from a weak balance sheet or a liquidity problem. "We have an earnings problem." It looks like one that will not go away

Firm gains by Japanese consumer credit groups

By Ian Rodger in Tokyo

PRE-TAX PROFITS of Nippon Shinpan, Japan's largest consumer credit group, rose 13.5 per cent to a record Y12.6bn ($104m) in the six months to September 30, thanks to brisk credit card sales and securities-guaranteed loans.

Credit card sales surged 31 per cent, reflecting the appeal of credit cards to young consumers in Japan.

The number of credit cards issued by the company rose by 1.54m to 17.61m during the period. Revenues from securities-guaranteed loans rose 65 per cent.

Orient Finance, the second largest consumer credit group, said its pre-tax profit rose 10.1 per cent to Y16.5bn, thanks to increases in credit sales, personal loans and leasing business.

Revenues rose 3 per cent to Y168.3bn and net income was up 5 per cent to Y6.5bn. The company expects net profits to rise to Y33bn, up 9.2 per cent, in the full year.

Jaccs, another leading consumer credit company with links with the Mitsubishi Bank and Fuji Bank, reported an 11 per cent rise in pre-tax profits to Y2.5bn.

Revenues increased by Y38.9bn, up 3 per cent.

● Pre-tax profits of Orient Leasing, Japan's leading leasing group, tumbled 26.2 per cent to Y19.1bn ($157.8m) in the year to September 30.

The company, which is to change its name to Orix next April, said the drop was due mainly to a decline of about Y6bn in its foreign exchange profits.

Overall sales rose 7.6 per cent to Y493.5bn because of strong demand for leasing office machines and other machinery.

Crédit Agricole appoints new chief

By George Graham in Paris

CREDIT AGRICOLE, France's largest bank, has named Mr Philippe Jaffré, former deputy head of the French Treasury, as its new chief executive.

Mr Jaffré will replace Mr Bernard Auberger at the head of the Caisse Nationale de Crédit Agricole, the central organisation of a federation of 92 regional co-operative banks, mostly dominated by local agricultural unions.

Viewed as one of the principal architects both of the reform of Paris's financial markets and of the last Government's privatisation programme, Mr Jaffré left the Treasury in October for Banque Stern, a small French investment banking subsidiary of Swiss Bank Corporation.

His appointment to Crédit Agricole raises a number of paradoxes: Mr Jaffré appears, in many ways, ill-placed to resolve the conflicts between the regions and the central Caisse Nationale, which was "mutualised," or sold by the state to the regional banks, earlier this year.

One French politician said: "The trouble with Crédit Agricole is that they sometimes get a good banker, and sometimes a good farmer, but rarely the two at the same time."

The first paradox is that the new chief executive, like his predecessor, comes from the ranks of the Treasury mandarins whose hold on the Caisse Nationale has been deeply resented by such barons of Crédit Agricole as Mr Lucien Douroux, head of the Ile-de-France regional bank.

The second paradox is that Mr Jaffré, as head of monetary and financial affairs at the Treasury, spent the past three years unsuccessfully opposing first the mutualisation of the Caisse Nationale and then the preservation of its monopoly over the distribution of state-aided agricultural loans and over the holding of rural notaries' deposit accounts.

As new chief executive of the Caisse Nationale, Mr Jaffré will now have to defend those monopolies against his former minister, Mr Pierre Bérégovoy, who wishes to abolish them.

Krupp dismisses stake speculation

By Andrew Fisher in Frankfurt

FRIED. KRUPP, the struggling West German steel and engineering group which last week said its 1988 pre-tax loss could approach DM100m ($58m), has reacted sharply to reports that its ownership could change as a result of interest being shown by the more successful Thyssen concern.

A Thyssen official said at the weekend that Mr Dieter Spethmann, the management board chairman, had held discussions a week ago with Mr Berthold Beitz, the supervisory board head of Krupp. But he declined to comment on whether Thyssen wanted a majority stake in Krupp.

Three-quarters of Krupp's shares are held by a charitable Krupp family foundation, set up in the late 1960s. The rest is owned by the Government of Iran, which held tentative but inconclusive talks with Westdeutsche Landesbank earlier this year about a possible sale of its shares.

Yesterday, Krupp said there were no plans for Thyssen to take a controlling stake. "The Krupp foundation is and remains the majority owner," the company said.

Krupp has suffered badly from losses in its industrial plant division, where it has been slow to react to worsening conditions. Unlike Krupp, Thyssen has reported higher profits this year and has hinted at an increased dividend.

Carnival to double fleet with purchase

By James Buchan in New York

CARNIVAL Cruise Lines, the world's largest operator of cruise ships, will increase its fleet by as much as 50 per cent with the $625m purchase of Holland America's cruise business.

The deal, announced on Friday, should be completed by mid-January and will give the Miami-based group a further four cruise vessels, or about 4,500 berths, to add to its present seven-ship fleet, with 8,500 berths.

The agreement also covers Westours, the Dutch company's land tour operating business, its Westmark Hotels chain, and Windstar Sail Cruises, three sail-rigged cruise vessels.

Friday's agreement is the culmination of months of effort by Carnival Cruise to buy extra capacity.

Through the summer, the company, which is operating fully booked in its main Caribbean business, attempted to take control of Royal Admiral Cruises, which operates Royal Caribbean Cruise Lines and Admiral Cruise Lines, for $550m. However, the deal collapsed when a minority shareholder in Royal Admiral opposed the transaction.

The Holland America deal must be approved by US anti-trust authorities as well as by its shareholders.

Carnival Cruise is believed to have about 23 per cent of the North American market. Holland America has less than 10 per cent but provides more expensive cruises.

Brierley sells NZ bank holding

By Dai Hayward in Wellington

THE NEW ZEALAND parent company of Brierley Investments, Sir Ron Brierley's international investment group, has shed another loss-making holding with the sale of its 8.6 per cent stake in Barclays Bank NZ to Barclays International.

Earlier this year, Brierley increased its holding in Barclays Bank NZ, buying 14.9m shares. The price paid by Barclay International suggests that Brierley may have incurred a loss of about NZ$500,000 (US$329,000).

UK COMPANY NEWS

ANI hits back at Aurora's bid defence forecast

By Andrew Hill

AUSTRALIAN National Industries, Australia's largest engineering group which is bidding for Aurora, has hit back at the Sheffield-based engineering company's defence document.

ANI said that it had based the 148.5p-a-share cash offer, valuing Aurora at £138.1m, on profit forecasts for 1988 made during October's abortive take-over discussions.

Aurora's defence document claimed that ANI had understated the company's value because it had based its hostile bid on Aurora's 1987 figures.

In a letter to Aurora's shareholders posted on Saturday, the Australian company said the UK group had made the same forecasts to other major shareholders including Electra, the investment institution. Electra surprised Aurora earlier this month when it precipitated the hostile bid by selling its 19.1 per cent stake in the company to ANI.

ANI said Aurora's forecast of a 40 per cent increase in 1988 pre-tax profits to £16.1m might have benefited from "certain one-off gains and short term influences". These could include, said ANI, accounting treatment of recent acquisitions and restructuring costs, currency gains, the continuation of a pension holiday and a lower than standard tax rate.

At the weekend The Australian group, which already holds 41 per cent of Aurora, also rejected suggestions that it might have been hit by the recent collapse of Rothwells, the Perth-based merchant bank. Aurora's adviser had queried the extent of ANI's involvement with the bank.

A fitting tribute for a road into Europe

Clay Harris throws a little light on Thorn EMI's strategy for 1992

THORN LIGHTING is making plans to launch its first "genuinely European light fitting" but the scheme casts as much light on the corporate evolution of the Thorn EMI subsidiary as it does on the shape of electrical products in post-1992 Europe.

Mr Hamish Bryce, Thorn Lighting managing director, is the first to admit that light fittings – and light sources, for that matter – will resist standardisation for a long time.

The most committed Eurocrat has not yet mooted enforcing a standard voltage throughout the EC or obliging homeowners to change every light socket to bayonet or screw fitting – which ever got the nod from Brussels. Even for a 1992 cheerleader like the entrepreneurial Ms Sophie Mirman, that would be Shock Shop.

So the new indoor commercial fitting which Thorn aims to have on the market by the spring of 1990 will *not* be identical by the time it reaches consumers in each country. But that in no way detracts from its importance for Thorn, which intends to use the project to integrate its European operations.

"We are on the road to becoming a genuine European company rather than a collection of European companies," says Mr Bryce. Over the past year, Thorn has been collecting fittings companies with a passion. It bought Järnkonst in Sweden for £15.9m late in 1987 and Holophane and Europhane in France for £87m this summer.

These joined a group which, in addition to Thorn's original UK fittings and light-source operations, had already expanded by acquisition into fittings in West Germany and, through a joint venture with GTE/Sylvania of the US, into light sources in Italy.

Even before its French deal, secured after a battle with Emess, a much smaller UK rival, Thorn claimed leadership of the fragmented Western European market for commercial and industrial fittings. More than 60 per cent of Thorn's lighting turnover now arises outside the UK.

THORN

Thorn intends to classify its product range into broad families and designate one of its operating companies as a "centre of excellence" to have full responsibility for design and manufacture of each product.

The management in question will have considerable discretion on design and manufacture: it could choose to produce the fitting only in one country, or in several.

It will also have to listen, however, to advice from Thorn's sales forces throughout the continent, and Mr Bryce's team at the centre will continue to set overall priorities.

The finished product itself may be different in technical terms, but this will not stop Thorn from using standard components and production methods. If the first project succeeds, it will be a model for future product development in the group.

Thorn is keeping quiet about which company will be chosen for the vanguard role, and Mr Bryce refuses to exclude any candidate. For example, neither Sweden's non-membership of the EC nor its fringe geographical position would put Järnkonst out of the running. From its base at Landskrona on Sweden's south-west coast, Järnkonst is quite close enough to the core of Western Europe, he says.

Changes at Järnkonst in the year since Thorn took control illustrate the UK company's methods of integrating acquisitions into the group. Thorn bought Järnkonst shortly after the Swedish company's parent, the industrial giant Asea, agreed to merge with Swiss-based Brown Boveri to form ABB. The disposal and merger were not directly connected, but Asea had long made clear it did not view Järnkonst as a core business.

Mr Torsten Korsell, Järnkonst's president and now head of Thorn's Swedish operations, says: "I was told it was always a potential sale to the right buyer."

Asea's willingness to sell coincided with Thorn's own two-year search for an appropriate Scandinavian partner. Thorn Belysning, the UK company's subsidiary in the region, had less than 15 per cent of the Swedish commercial fittings market and even smaller shares of 6 per cent in Norway and 5 per cent in Finland. Its annual turnover was only £7m.

According to Mr Lars Redin,

Hamish Bryce:secret of our success is going to be organic development in Europe

Thorn general manager for northern Europe, the company felt that organic growth alone would not be able to push these shares any higher by 1990 than 20 per cent in Sweden, 15 per cent in Norway and 7 per cent in Finland.

Thorn's only factory in the region was at Horn in south-east Sweden. One priority was to gain a production base in Finland, both to satisfy local "buy Finnish" demands and to use as a springboard for exports into the Soviet Union.

However, Thorn did not proceed with the acquisition of one Finnish manufacturer on its short list because fittings accounted for less than half of sales and because of poor results.

It also excluded a Norwegian company which was looking for a buyer. Thorn was not impressed with the quality of management or of financial reporting. Moreover, Norway's high inflation made it less than ideal as an exporting base.

Järnkonst, on the other hand, brought not only the Landskrona factory and a leading position in the Swedish market, but also three Finnish manufacturing operations: Orno (commercial decorative fittings) and Alppi and Tarenius (fluorescent fittings).

It had two sales operations in Norway and market leadership in Saudi Arabia through licensing and export arrangements and a minority stake in one production company. Altogether its sales amounted to nearly £40m.

The acquisition gave Thorn more than 32 per cent of the Swedish commercial and industrial fittings market. Taking into account fittings Järnkonst continues to make for ABB's Asea-Skandia chain of electrical wholesalers, the group's market share rises to 50 per cent.

In Finland and Norway, market shares more than doubled to 15 per cent and 16 per cent respectively. In the medium term, Thorn wants at least a quarter of the Finnish market, and 20 per cent in Norway.

Although Thorn has made relatively few changes, Järnkonst returned to profit in 1988 after two years in the red immediately preceding the takeover – although this financial state of affairs was discreetly not mentioned at the time.

The main savings were made by eliminating duplication at the administrative level in all three countries. There was also considerable reorganisation, with operating companies merged both in Norway and Finland.

Mr Korsell set a personal example for flexibility. He was shorn of control over Norway and Finland, but was given responsibility for the combined group's Swedish manufacturing operations. Production employment has risen.

With demand strong at present, Landskrona and Thorn's original factory are running at full capacity. However, over the long term, Mr Bryce

JÄRNKONST

admits, efficiency would suggest consolidation of production at an expanded Landskrona plant.

Both companies benefited from getting access to the other's product range. Järnkonst, for example, is manufacturing fittings based on Thorn's 2-D compact fluorescent bulb.

"Järnkonst was very weak in compact light sources," says Mr Korsell. "We had the opportunity to take UK *products* very quickly and introduce them into our range in Sweden."

For its part, Thorn is planning to market Järnkonst's City Scape range of street and amenity lighting in the UK.

Thorn expects acquisitions such as last month's £28m purchase of Howard Smith Industries in Australia to continue.

Lonrho report analyses Bond group commitments

By Andrew Hill

LONRHO, the international trading group, has published a 93-page "financial analysis" of Mr Alan Bond's group of companies, alleging that they have gross borrowings and commitments of A$14bn (£6.63bn).

Last Wednesday, in Australia, Mr Bond forecast net liabilities of $3.9bn for Bond Corporation by early next year.

Bond Corporation, headed by the Australian businessman, holds a 21.5 per cent stake in Lonrho and speculation has been mounting that it is planning to bid for the trading group.

Bond's UK representatives have written off the publication – latest in a long line of weighty and often vituperative reports about Lonrho's business rivals – as "amateurish and superficial".

The Bond camp also said suggestions that financial services group Robert Fraser would emerge as the buyer of Bond's 31 per cent stake in Dewey Warren, a USM-quoted insurance broker, were speculative.

The holding was inherited when Bond bought Mr Robert Holmes a Court's Bell Group earlier this year and gives the Australian company effective control over Dewey's 5 per cent stake in Morgan Grenfell, to add to a further 3 per cent of the merchant bank already owned by Bond.

Both the Dewey and the Morgan Grenfell stakes are earmarked for sale, as part of Bond's shift away from the British financial services sector.

Business Mortgages

Business Mortgages Trust swung from losses of £4.3m to profits of £1.2m pre-tax for the half year ended September 30. The directors consider that it is not yet appropriate to resume ordinary dividends.

UB seeks assurances from Royal Bank on bid tactics

By Andrew Hill

SIR HECTOR LAING, chairman of United Biscuits, has asked Sir Michael Herries, chairman of the Royal Bank of Scotland, for assurances that the bank will not assist in hostile bids for the snack foods and restaurant group, one of RBS's major corporate clients.

Sir Hector's action follows criticism of RBS for supporting predators in recent bid battles. In particular he is concerned about the bank's relationship with its customers.

"I would regard them as friends and if I go into battle I want to be sure that my friends aren't providing the enemy with ammunition," he said yesterday.

Last week, William Collins, the publisher, dropped RBS as one of its two principal clearing banks because the bank's subsidiary, Charterhouse, was acting as merchant bank for News International, which has mounted a hostile bid for the outstanding shares in the publisher.

The dispute echoes Distillers Group's dismissal of RBS as its principal bank three years ago for providing part of the loan financing for the Argyll food group's hostile offer.

RBS, which reveals its full-year results on Thursday, has said that the key principle in customer relationships is to apply equal treatment to all clients.

In October RBS helped provide loan facilities for Elders IXL, the Australian group, in its hostile bid for Scottish & Newcastle Breweries, despite the fact that three RBS directors had strong S&N connections.

UB has been an RBS customer for at least 75 years, and in 1981 Sir Hector supported the bank by writing to the Office of Fair Trading expressing UB's disapproval of the bid for RBS from Hongkong and Shanghai Banking Corporation.

RBS preferred a takeover approach from Standard Chartered, despite Scottish criticism of both potential partners, but the bids were eventually blocked by the Monopolies and Mergers Commission.

Merrydown ahead but gives warning

Taxable profits of Merrydown Wine, cider and fruit wine producer, moved ahead from £672,671 to £748,402 for the six months ended September 30 1988.

But the directors show concern that retail sales may suffer because of generally lower consumer demand, and that the drinks market may prove to be no exception.

Total sales for the period amounted to £6.12m, compared with £5.54m, with apple juices performing well, both under the company's own brand and private label, the directors stated. Growth prospects for these products were good.

After tax of £261,941 (£235,000) earnings per share were 10.21p (9.24p) while the interim dividend is lifted from 0.9p to 1p – last year's total was 5.3p.

GT Venture

GT Venture Investment (GTVIC) is to pay £20m for stakes in up to 31 unquoted venture funds held by the Water Authorities Superannuation Fund.

Hughes slows down to £2.2m

HUGHES FOOD Group raised its first-half turnover by 45 per cent to £31.81m, but saw its profits for the period to end-September rise by only 9 per cent to £2.2m.

The directors said the results were adversely affected by a recent rise in borrowing costs and a downturn in margins in the first stage fish processing companies – interest charges rose by £681,000 to £864,000.

Earnings worked through at 2.26p (2.15p) after taking account of tax of £1.56m (£1.34m) and minorities. The interim dividend is a same-again 0.25p.

An extraordinary provision of £698,000 (nil) comprised abortive acquisition costs and the cost of discontinuing vegetable processing.

Hughes, traded on the USM, is a food processing and equipment company.

GWR advances

GWR Group returned pre-tax profits of £707,000, against £486,000, for the year to end-September. Turnover rose from £3.49m to £4.2m. There is an initial final dividend of 3p is being recommended.

Downturn at SAC

SAC International returned profits of £2.02m pre-tax for the year ended August 31, a shortfall of £1.22m on the figures of the previous 12 months. Turnover expanded by £3.54m to £41.61m.

The dividend is raised 14% to 4p with a final of 2.5p. Earnings are 6.03p (10.64p).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

ACM Gold (Section: Mines-Australian).

Bond International Gold (Mines-Miscellaneous).
Com-Tek Resources (Oils).
First International Property Trust (Property).

Futura Holdings (Shoes).
Jersey General Inv. Trust (Trusts, Finance, Land).

Riva Group (Electricals).
SWP Group (Buildings).
Swallowfield (Industrials).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Anglo Utd., BET, Bromsgrove In Gt., Chamberlin & Hill, Hewetson, Lyons Irish Hldgs, NSM, Sanders & Sidney, Sheraton Securities Intl, Union Square, Vernon Intl., Vibroplant, Wiggins.

Finals- Circaprint Holdings, Cons. Co. Bullion [illegible], Grosvenor West Diamond Mining, Johnson & Firth Brown.

FUTURE DATES

Interims-	
Charter Consolidated	Dec. 14
Fine Arts Dev.	Dec. 13
Intl. Comms. Data	Nov. 29
Learmonth & Burchett Mgt.	Dec. 6
Reed Executive	Dec. 8
Satellite Speakman	Dec. 20
Tarns (J)	Dec. 7
Finals-	
Albion	Dec. 7
Ashley	Dec. 8
Birmingham Mint	Dec. 7
Borns Anderson	Dec. 6
Dobson Park Inds.	Dec. 7
Hanson	Dec. 6
Holms & Merchant	Dec. 12

FINANCIAL TIMES STOCK INDICES

	Nov. 25	Nov. 24	Nov. 23	Nov. 22	Nov. 21	Nov. 18	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	87.48	88.00	88.19	88.29	88.33	88.21	91.43	86.28	127.4	49.18
Fixed Interest	96.97	97.00	97.04	97.00	96.87	97.18	98.67	94.14	105.4	50.53
Ordinary	1462.6	1493.7	1497.4	1487.3	1480.1	1489.0	1514.7	1349.0	1926.2	49.4
Gold mines	175.7	173.3	168.0	168.0	172.0	176.2	312.5	162.7	734.7	43.5
FT-Act All Share	934.36	955.23	957.58	950.37	945.99	951.59	978.58	870.19	1238.57	61.92
FT-SE 100	1794.7	1833.0	1837.1	1821.3	1811.1	1823.4	1879.3	1694.5	2443.4	986.9

CONTRACTS

Leeds retail project

NPC Properties has awarded the £9m construction contract for the 20 acre Crown Point retail park, Hunslet Lane, Leeds, to WIMPEY CONSTRUCTION UK, North East region.

The project involves the construction of a 220,500 sq ft retail park comprising 13 units, and in excess of 1,100 car parking spaces. Construction work is scheduled for completion during August 1989.

The £20m development is being carried out by NPC Properties, in partnership with Norwich Union Insurance Group.

Eleven units have already been pre-let to retailers including Texas Homecare, Allied Carpets, Boots, Childrens World, FADS, Shoe City, Just Leather, and ELS among others.

Bromley town centre

A £94m contract to redevelop the town centre of Bromley, south London, has been won by Tarmac, the construction and building materials group.

The contract has been awarded by Broadway Construction, a subsidiary of Capital & Counties property group. It calls for a shopping centre, leisure centre, a new church and an extension to an existing Marks & Spencer store. It is one of the biggest town centre contracts to be awarded in the UK, said Tarmac.

Braintree town centre shopping development

A £7.8m management contract has been awarded to the P&O Group company BOVIS CONSTRUCTION to redevelop the town centre of Braintree, Essex with the building of a shopping precinct, a joint development between Shire and City Developments, a P&O subsidiary, and Braintree District Council.

The 11,000 sq metre precinct will be formed within the heart of Braintree behind the existing buildings that front Rayne Road, Bank Street and the High Street and will consist of 36 two-storey retail units grouped on either side of an open central mall.

The main pedestrian access will be from Bank Street through the old Sand Pit Road into the centre of the mall, where a cast iron bandstand will be built to serve as the focal point of the precinct.

At the south west corner will be a three-level independent 725 space car park with its entrance in the newly-built link road to Pierrefitte Way.

The two-storey shop units will be clad in brickwork around a steel-framed structure on conventional concrete pad foundations. Traditional with the slated pitched roofs will follow the layout of the individual shops to create a many faceted roofscape.

The design throughout is of a vernacular style that echoes the traditional local architecture, mainly achieved by the use of decorative brickwork involving nine differing brick finishes.

Four existing 16th century buildings are to be restored and incorporated into the scheme as retail units.

The developers are making a viewing gallery available to the public and included within is a dispay of archaeological finds made during construction. Construction work is already underway with completion due on October 31 1989 ready for the Christmas trading, following a fast-track programme of 62 weeks.

Market hall

PARTINGTON BUILDING GROUP has secured several contracts in the North West, totalling over £15m in value. In Oldham, the group has been awarded the contract for the construction of a market hall complex in the centre of the town, with an overall value of about £4.5m. The contract will leave the town's Tommyfield Market once again with a traditional Victorian style market hall and shops. Work has started on the first two phases, with the awarding of the third phase expected to follow shortly.

In Greater Manchester the house building division is to build "executive" style homes at Stalybridge in Cheshire, and Milnrow and Royton near Oldham, with a combined value of about £9m.

Other awards include a £600,000 development of 26 flats in the Longsight area of Manchester for the North British Housing Association.

Expanding facilities at Macclesfield plant

The AUSTIN COMPANY OF UK has been awarded a contract for the design and construction of a laboratory representing an £8.7m investment for ICI at Macclesfield.

The site houses the manufacture and packaging of ICI's pharmaceuticals division, so the specifications and planning involved in the project were highly detailed. Austin was asked to study laboratory operations on site before designing the facilities - this study led to ICI asking Austin to take on the total design and construction of the quality assurance building.

With three storeys and a total floor area of 48,000 sq ft, including approximately 21,000 sq ft of laboratory space, the quality assurance building houses general administration areas and some laboratories on the ground floor with the majority of the laboratory area on the first floor. The top floor is devoted entirely to housing ductwork, pipework, air handling plant and building services equipment - with most of the laboratories on the floor directly below, the servicing that is often frequently required is made much easier.

Approximately 45 fume cupboards are also being provided in the laboratory as well as several environmental safety cabinets and a clean room facility. Austin's and ICI's concern with the environment is continued throughout, especially with the external appearance of the quality assurance building which complements the surrounding area.

Carlisle offices

JOHN LAING CONSTRUCTION has won a contract for a project in Carlisle. The contract, worth around £1.15m, was awarded by Triumph Holdings and involves a shopping and office development at St Mary's Gate/Fisher Street, Carlisle. The development will be a two-storey steel-framed building on piled foundations with slate roof and brick/stone facades.

DIARY DATES

FINANCIAL

TODAY
COMPANY MEETINGS-
Amstrad, Tower Thistle Hotel, St. Katharines Way, E., 3.00
Haggas, Keighley, West Yorkshire, 11.00
Randsworth Trust, 78, Mount Street, W., 12.00
Tottenham Hotspur, 748, High Road, N., 10.30
BOARD MEETINGS-
Finals:
Circaprint
Cons. Co. Bultfontein Mine
Griqualand West Diamond Mining
Johnson & Firth Brown
Interims:
Anglo Utd.
Beecham
Bromsgrove Inds.
Chamberlin & Hill
Hewetson
Lyons Irish
NSM
Sanders & Sidney
Sheraton Securities
Union Square
Verson Intl.
Vibroplant
Wiggins
DIVIDEND AND INTEREST PAYMENTS-
Bank of Tokyo (Curacao) Hldg. NV Gtd. Fltg. Rate Nts. 1990 $1581.11
Bertrams Inv. Tst. 1.45p
Clarkson (Horace) 2.25p
Cons. Freightways 24.5cts.
FAI Ins. 4cts.
Green (Ernest) & Partners Hldgs. 3p
Haggas (John) 3p
Intl. Business Comns. Hldgs. 1.3p
Lloyds Chemists 1.2p
Miss World Group 2p
Robert Fleming Netherlands BV Prim. Cap. Und. Fltg. Rate Nts. $427.17
Sirdar 3.5p
Sound Diffusion 0.1p
Stanhope Props. 0.1p
Suter 2p
Watts, Blake, Bearne & Co. 2.2p

TOMORROW
COMPANY MEETINGS-
Barry Wehmiller, The Brewery, Chiswell Street, E.C., 10.30
Chambers & Fargus, Marina Post House Hotel, Castle Street, Hull, 12.00
Davies (D.Y.), Armourers Hall, 81, Coleman Street, E.C., 11.10
EFM Dragon Trust, 4, Melville Crescent, Edinburgh, 2.00
Savage, Corville Mill, Park Street, St. Albans, 10.00
BOARD MEETINGS-
Finals:
Amber Day
Fairline Boats
Irish Wire Prods.
Northern American Trust
TMD Advertising
Interims:
Allied Lyons
Caledonia Invs.
Chamberlain Phipps
Chloride
Dawson Intl.
Hambros
Intl. Comms. Data
London Securities
Premier Cons Oil
Readicut Intl.
Robertson Group
Siebe
DIVIDEND AND INTEREST PAYMENTS-
Amstrad 1p
Bank of Montreal 50cts.
Bryant Group 3.1p
Cussins Property Group 3.15p

WEDNESDAY NOVEMBER 30
COMPANY MEETINGS-
Beazer, Guildhall, Bath, 12.00
Cramphorn, Cuton Mill, Chelmsford, Essex, 12.00
BOARD MEETINGS-
Finals:
Kwik Save
TSB Channel Islands
Tate & Lyle
Interims:
BPB Inds.
Bassett Foods
Chemoxy Intl.
HPC
Jarvis Porter
Mountview Estates
Porter Chadburn
Rolfe & Nolan Computer Services
Rowlinson Securities
Royal Trust Government Securities Fund
Scottish & Mercantile Inv. Tst.
Shanks & McEwan
Southwest Resources
DIVIDEND AND INTEREST PAYMENTS-
APV 7½% 1st Mtg. Deb. 86/91 3.115pc
Ace Belmont Intl. 10% Prf. 5p
Adscene Group 7¾% Cnv. Red. Prf. 5.0534246p
Allied-Lyons 5½% Prf. 1.925p
Do. 7½% Prf. 2.625p
Armitage Bros. 7½% 1st Mtg. Deb. 86/90 3.75pc.
Aurora 1.2p
Automated Security Hldgs. 8% Cnv. Red. Prf. 2.104p
Do. 8% Cnv. Uns. Ln. 90/95 4pc.
BBA Group 6¾% Red. Cnv. Prf. 3.862p
BHH Group 1.25p
BMSS Group 1.75p
STR Nylex 10cts.
Banco De La Prov. De Buenos Aires Fltg. Rate Nts. 1988 $204.92
Bank of Communications Fltg. Rate Nts. 1993 $409.84
Bankers Inv. Tst. 0.42p
Do. 3½% Prf. 1.75p
Blue Circle Inds. 6p
Bristol (City of) 11½% Red. 2008 5.75pc.
Britannia Arrow Hldgs. 5¼% Prf. 2.3625p
British Alcan Aluminium 10½% Deb. 2011 5.1875pc.
British Fittings Group 1.135p
Broken Hill Proprietary 17cts.
Bryant Group 8% Prf. 2.8p
Cabra Geral De Depositos Fltg. Rate Dep. Nts. 1994 $409.84pc.
Canning (W.) 7½% Uns. Ln. 88/93 3.75pc.
Caparo Inds. 0.88p
Do. 6% Prf. 4.2p
Capital & Counties 6⅞% 1st Mtg. Deb. 95/2000 3.4375pc.
Carbo 2.1p
Cater Allen US Dollar Inc. Fd. Ltd. Ptg. Red. Prf. 14cts.
Centreway Inds. 0.5p
Chambers & Fargus 2p
Chase Manhattan FRN's 1997 $227.50
Chemical Banking FRN's 1989 $70.31
Citygrove 7.75pc Pf 3.875p
Commerzbank O'seas Finance FRN's 1989 $221.18
Cont. & Indl. Tst. 5½pc Pfd 1.925p
Do. 5½pc Deb 1983/88 2¾pc
Co-Operative Bank 8.48pc Pf 3.491p
Corporate Estates Props. 1.25p
Do. Rld. 0.625p
Cramphorn 4p
Cropper (James) 9pc Ln 1994/99 4½pc
Davies (D.Y.) 3p
Dawson Intl. 10¾pc Deb. 1990/95 5⅜pc
Dunlop Plantations 6pc Pf 2.1p
EFM Dragon Tst. 0.03p
Eadie 0.9p
Electric & Gen. 10¾pc Deb. 2011 5⅜pc
European Colour 0.4p
Expedier Leisure 7¾pc Pf 3.875p
Fifth Throgmorton 7¼pc Ln 2003 4.032191p
First Chicago O'seas Finance Gtd. FRN's 1994 $227.50
Forward Technology Inds. 0.6p
Fundivest 5.892p
Gestetner 10pc Ln 1990/95 5pc
Glasgow Income Tst. 0.4p
Goodhead 7pc Pf 3.5p
Great American First Savings Bank 15cts
Greene King 6¾pc Ln 1988/93 3⅜pc
Guidehouse 0.4p
Halifax B. S. FRN's 1996 £49.51
Hill Samuel FRN's $409.84
Hydro-Quebec 15pc Ln 2011 7½pc
ISA Intl. 0.45p
ICI 7¾pc Ln 1986/91 3⅞pc
Italy (Rep. of) FRN's 2005 $70.31
Jersey Gen Inv Tst 5½pc Pf 2.75p
Johnson, Matthey 6½pc Deb 1985/90 3¼pc
Jove Inv Tst 3.06p
Kleinwort, Benson Gilt Fd. 33.16p
Kleinwort, Benson, Lonsdale FRN's $416.20
Lawson Mardon "A" 10cts
Leisure Invs. 7pc Pf 3.5p
Lloyds Bank Prim Cap FRN's (Ser. 2) $226.92
London & European 10½pc Ln 1993 5¼pc
Merlin Intl. Props. 4p
Metsec 1.85p
Mezzanine Cap. & Inc. Tst 2001 5.9p
Midland Bank 14pc Ln 2002/07 7pc
Murray Ventures 3.85p
NCR 4pc Gtd Ln 1993/98 2pc
Do. 8½pc Ln 1993/98 4¼pc
NatWest FRN's (Ser. C) $224.34
New Brunswick (Prov. of) FRN's 1994 C$28.38
Northern Foods 7¼pc Deb 1985/90 3⅝pc
OCE (UK) Ln 1987/92 4½pc
O.K. Bazaars 6pc 2nd Pf 6cts
Oceonics 9¼pc Pf 1983 4⅝pc
Ogilvy 22cts
Paterson Zochonis 7½pc Pf 3.75p
Do. 10pc Pf 5p
Peel 5.25pc Non-Vtg. 2.625p
Perry 2.75p
Pilgrim House 5p
Pillsbury 30cts
Radamec 0.5p
Raeburn Inv. Tst. 5pc Pf 1.75p
Do. 4½pc Ln 1973/98 2¼pc
Randsworth Trust 1.5p
Rosehaugh Greycoat Estates 11pc Deb 2014 5½pc
Royal Bank of Canada Fltg Rest Debs 2005 $70.31
Salisbury (J) 6½pc Deb 1988/93 3¼pc
St. Modwen Props. 8.5pc Pf 4.25p
Save & Prosper Return of Assets 6.3pc-13.3pc Pf 4.55p
Senior Engineering 1p
Southampton, IOW & SOE RM Steam Pkt. 5pc Pf 1.75p
Standard Bank Imp. & Exp. Fin Gtd FRN's 1992 £156.17
Stoddard Sekers Intl. 2p
Svenska Intl. Sub FRN's 1995 $403.49
TR City of London 0.77p
TR Trustees 10½pc Deb 2016 5¼pc
T.T. Finance 11⅛pc Deb 2018 5$\frac{9}{16}$pc
Tate & Lyle Pf 2.0419p
Tesco 1.175p
Throgmorton Trust 12⅞pc Deb 2010 6⅞pc
Tomkins 9¼pc Ln 1994 4⅝pc
Unisys 8pc Deb 1987/92 4pc
Viking Resources Tst 0.55p
Wade Potteries 10pc Pf 5p
Wagon Indl. 3½pc Pf 0.875p
Walker Greenbank 1p
Wells Fargo FRN's 1992 $70.63
Do. FRN's 2000 $70.63
Western Mining A$0.13

THURSDAY DECEMBER 1
COMPANY MEETINGS-
Allied London Properties, Inn on the Park, Hamilton Place, Park Lane, W., 12.00
Kingston Oil & Gas, Midland Hotel, Peter Street, Manchester, 11.00
Star Computer, 64, Great Eastern Street, E.C., 10.00
BOARD MEETINGS-
Finals:
Ashley
Buffelsfontein Gold Mining
Carroll (P.J.)
Groolvlei Propietary Mines
MEPC
Royal Bank of Scotland
St. Helena Gold Mines
Sidlaw
Stilfontein Gold Mining
West Rand Cons. Mines
Interims:
Anglo American Corp. of South Africa
Baker Harris Saunders
Castings
Ferranti
Finlan
Monks & Crane
United Inds.
DIVIDEND AND INTEREST PAYMENTS
AMAX 10cts
Agric. Mortgage 4½pc Deb 1981/91 2¼pc
Ahmanson (H.F.) 22cts
American Brands 61cts
American General 35cts
BM Group 1.8p
Billingsgate City Securities 1.7702p
Birmid Qualcast 6.8p
Bord na Mona 6pc 1984/89 3pc
Braithwaite 3.5p
CNA Gallo 5pc Pf 5cts
Canning (W) 1.5p
Cater Allen 4.2pc Pf 2.1p
Do. 5pc Pf 1.75p
Dares Estates 10¼pc Deb 2012 5⅛pc
Delta 3.4p
East Surrey Water "A" 7pc 3.5p
Do. "B" 4.9pc 2.45p
Do. "C" 3.5pc 1.75p
Do. 3.5pc 1.75p
Do. 4.2pc 1985/90 2.1p
Do. 5.6pc 1992/94 2.8p
English China Clays 7½pc Ln 1993/98 3¾pc
Do. 7pc Ln 1998/2003 3½pc
First Spannish Inv. Tst. 0.35p
Fleming, Mercantile Inv. Tst. 4¼pc 2⅛pc
Foxboro 10cts
Fujitsu Y4
Garton Eng. 1.5p
General Cons. Inv Tst. 4¼pc "A" 1.4875p
Genfinance 11.49pc Ln 2007 (Reg) 5.745pc
Do. 11.49pc Ln 2007 (Br) 5.745pc
Goodman Fielder Wattie 6cts
Gowett Atlantic 5pc Pf 1.75p
Do. 5½pc Pf 1.925p
Do. 4½pc Pf 1.575p
Govett Oriental Inv. Tst. 0.8p
Do. 5pc Pf 1.75p
Great Portland Estates 9½pc Ln 2002 4¾pc
Hambros Inv. Tst. 3½pc Pf 1.225p
Harris (Philip) 7½pc Pf 2.625p
Do. 8pc "B" Pf 2.8p
Hogg Robinson & Gardner Mountain 2.5p
Ingersoll-Rand 26cts
Intl. Stock Exchange Deb 1990/95 3⅝pc
Jones (A) 6½pc Pf 2.275p
Kirklees Met. Council 11.6pc 2031 5.8pc
Kleinwort Charter Inv. Tst. 4pc Pf 2p
Lamont 2.75p
Law Debenture 4½pc Deb 2¼pc
Lee Valley Water 2.8pc 1.4p
Do. 3.5pc 1.75p
Do. 2.8pc Pf 1.4p
Legal & General 4.5p
Lewis (John) 5pc Pf 1.75p
Do. 7½pc Pf 2.625p
Lombard North Central 5pc Pf 1.75p
Do. 6pc Pf 2.1p
London County 3pc 1920 (or after) 1.5pc
Do. 2½pc 1920 (or after) 1.25pc
MB 2.8pc Pf 1.4p
M & G Intl. Income Fund 1.7p
Malawi Railways 3½pc Deb (1988/88) 1¾pc
Microfilm Reprographics 2.25p
Monks Inv. Tst. 11pc Deb 2012 5½pc
Do new 11pc Deb 2012 5½pc
Monsanto 6¾pc Ln 1992/97 3⅜pc
Do. 5pc Ln 1992/97 2½pc
Mowat 0.5p
Murray Smaller Markets Trust 4.1pc Pf 2.05p
Ontario & Quebec Railway 6pc Cap 3pc
Do 5pc Deb 2½pc
Ossory Estates 0.35p
Portsmouth Water 3.5pc 1.75p
RMC 4.6p
RPH 4pc Pf 1.4p
Do. 8pc Pf 2.8p
Reed Intl. 4½pc Pf 1.575p
Do. 6½pc Pf 1.925p
Rickmansworth Water 3.5pc 1.75p
Save & Prosper Linked Inv. Tst. 20.5p
Schroder Global Tst. 6pc Deb 1984/89 3pc
Scott & Robertson 1.3p
Scottish Mortgage & Tst. 0.9p
Scottish TV 3.75p
Southampton Harbour Board 6¾pc 1986/90 3⅜pc
Standard Trust 5½pc Deb 1983/88 2¾pc
Sun Alliance & London Insurance 15p
TR Australia Inv. Tst. 5pc Pf 1.75p
TR Trustees 4½pc Pf 1.575p
Texas Eastern 25cts
Top Value Inds. 1p
U.E.I. 2.6p
Union Carbide 20cts
Vivat 7pc Pf 2.45p
War 3½pc Ln 1.75pc
Watney, Mann & Truman 4¾pc Deb 1988/93 2⅜pc
Do. 6½pc Deb 1987/90 3¼pc
Whitbread 6¼pc Deb 1987/92 3⅛pc
Do. 6½pc Deb 1986/91 3¼pc
Wright (John) (Weaving) 4½pc Pf 1.575p
Young & Co Brewery 6½pc Deb 1984/89 3¼pc

FRIDAY DECEMBER 2
COMPANY MEETINGS-
A.B. Electronic, St. Davids Hall, Cardiff, 11.30
Halstead (James), Piccadilly Hotel, Manchester, 12.00
Pochin, Brooks Lane, Middlewich, Cheshire, 12.00
BOARD MEETINGS-
Interims:
Bank of Nova Scotia
Marling Inds.
DIVIDEND AND INTEREST PAYMENTS-
B.A.T. Inds. 12¼pc Ln 2003/08 6⅛pc
Do FRN's 1988/90 £4.262
Blue Circle Inds. 6pc Deb 1988/93 3pc
Do. 7pc Deb 1988/93 3.5pc
Do. 9pc Deb 1992/97 4.5pc
Do. 10¼pc Deb 1994/99 5⅛pc
CSL 1.2p
Castle Comms. 4.2p
First Union Gen. Inv. Tst 18cts
Halstead (James) 5p
House of Lerose 3p
Lilleshaw 1p
Plumb 1.75p
St. Ives 2.25p
TSW 2.25p
Third Mile Inv. 1.3p

SUNDAY DECEMBER 4
DIVIDEND AND INTEREST PAYMENTS
Copymore 0.8p

Trade Fairs and Exhibitions: UK

November 29-30
Institute of Gas Engineers meeting and exhibition (01-245 9811)
Wembley Conference Centre

November 29-December 3
World Travel Market (01-940 6065)
Olympia

November 30-December 1
Business Sponsorship Link Exhibition (01-727 1929)
Business Design Centre, Islington

December 1-3
Cash and Carry Fashion Show (01-727 1929)
Kensington Town Hall

December 5-8
Royal Smithfield Show & Agricultural Machinery Exhibition (01-235 0315)
Earls Court

December 9-12
Clothes Show (01-834 1717)
Olympia

December 16-17
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

December 31-January 8
Model Engineers Exhibition (0442 41221)
Wembley Centre

January 4-15
London International Boat Show (0932 854511)
Earls Court

January 5-8
Holiday and Travel Fair (021-780 4171)
NEC, Birmingham

January 7-12
International Toy Fair (01-226 6653)
Harrogate

Overseas Exhibitions

Current
International Garment Manufacturing Equipment and Machinery Exhibition - GARMENTECH (01-236 2299) (until November 29)
Beijing

Current
International Tourism Exhibition - TOURISTICAFRANKFURT (01-734 0543) (until December 4)
Frankfurt

November 30-December 3
International Office Environment Show - JAPAN OFFICE (01-486 1951)
Tokyo

December 1-4
Art and Antique Dealers Exhibition - VKA (01-236 0911)
Stuttgart

December 7-16
Children's World Exhibition (01-437 3344)
Kuwait

December 8-11
Singapore Informatics Exhibition (01-889 1943)
Singapore

December 13-16
International Defence Equipment Exhibition and Conference - DEFENCE ASIA (0494 729406)
Bangkok

January 11-14
Toy Show (01-930 7955)
Hong Kong

Business and management conferences

November 29-30
Financial Times Conferences: Private health care (01-925 2323)
Hotel Inter-Continental, London

November 29-30
London Chamber of Commerce: London and the South East: the challenges of change (01-248 4444)
Royal Lancaster Hotel, London

November 30
Tradelink: Doing business with Iran (01-749 1474)
Copthorne Hotel, Birmingham

December 1-2
Financial Times Conferences: European business forum - 1992 and after (01-925 2323)
Grand Hotel, Rome

December 1-2
Financial Times Conferences: Venture capital financial forum (01-925 2323)
Hotel Inter-Continental, London

December 1
Elsevier Seminars: Computers in financial trading (0865 512242)
Tara Hotel, London

Royal Institute of International Affairs/British Institute of Energy Economists/International Association for Energy Economics: Third international energy conference (01-930 2233)
Chatham House, London

December 5-6
Financial Times Conferences: The outlook for oil (01-925 2323)
Hotel Inter-Continental, London W1

December 5-6
FIBEX: National finance directors' conference (01-637 1133)
Le Meridien Hotel, London

December 6
Northern Development Company/Grant Thornton: Europe 1992 - getting beneath the surface (091 261 3631)
Newcastle upon Tyne

December 8
Business Briefings: Private enterprise and developing countries (01-381 1284)
Glaziers Hall, London

December 12
The Institute of Chartered Accountants: Improving business performance - today's challenge (0908 668833)
The Gloucester Hotel, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published.

PARLIAMENTARY

Today

Commons: Debate on Queen's Speech.
Select committee: Environment: subject, toxic waste. Witness: Mr Stanley Clinton Davis, European Commissioner. (Room 21, 4.30 p.m.)

Tomorrow

Commons: Final day of debate on the Queen's Speech.
Lords: Debate on the Queen's Speech - economic affairs and the environment.
Select committee: Members' interests: subject, parliamentary lobbying. Witnesses: Society for the Protection of Unborn Children, all-party disablement group, Royal Association for Disability and Rehabilitation. (Room 15, 4.30 p.m.)
Parliamentary Commissioner for Administration: subject, annual reports on the commissioner. Witnesses: Sir Anthony Barrowclough QC, Mr Donald Allen, and Mr Gordon Marsh. (Room 16, 4.30 p.m.)

Wednesday

Commons: Petroleum Royalties (Relief) and Continental Shelf Bill, second reading.
Debate on procedure.
Motion on EC documents relating to milk quotas and New Zealand butter.
Lords: Debate on the state of the prisons in England and Wales.
Question to Government on "action to combat the crisis in the London Borough of Brent."
Select committees: Agriculture: subject, land use and forestry. Witnesses: Countryside Commission, Countryside Commission for Scotland, Association of County Councils, Convention of Scottish Local Authorities, and Welsh Counties Committee. (Room 20, 10 p.m.)
Environment: subject, toxic waste. Witnesses: Cremer and Warner; Dames and Moore International. (Room 21, 10.30 a.m.)
Defence: subject future of the Brigade of Gurkhas. Witnesses: Ministry of Defence and Foreign and Commonwealth Office. (Room 16, 10.50 a.m.)
Energy: subject, annual report and accounts, 1987 to 1988, of British Nuclear Fuels. Witnesses: Mr Christopher Harding, chairman, and Mr John Hayles, finance director, British Nuclear Fuels. (Room 8, 11 a.m.)
Trade and Industry: subject, trade with eastern Europe. Witnesses: Mr Ralph Land and other businessmen. (Room 15, 11.15 a.m.)
Education Science and Arts: subject, the Arts Council report. Witness: the Arts Council of Great Britain. (Room 21, 4.15 p.m.)
Employment: subject, employment patterns of the over-50s. Witness: CBI. (Room 8, 4.15 p.m.)
Home Affairs: subject, Forensic Science Service. Witness: Mr R.W. Owen of Touche Ross. (Room 15, 4.15 p.m.)
Public Accounts: subject, National Audit Office and Northern Ireland Office estimates. Witnesses: Mr J.B. Bourn, Comptroller and Auditor-General, and Mr L.V. Calvert, Comptroller and Auditor-General for Northern Ireland. (Room 16, 4.15 p.m.)
Treasury and Civil Service: subject, the Autumn Statement. Witness: Mr Nigel Lawson, Chancellor. (Room 6, 4.30 p.m.)

Thursday

Commons: Motion on EC documents relating to fisheries arrangements for 1989.
Opposed private business at 7 p.m.
Motion on EC document relating to summer time arrangements.
Lords: Debate on report of the European Community on alternative energy sources.
Question to Government on the committee of inquiry into the care and aftercare of Miss Sharon Campbell.

Friday

Commons: Debate on House of Commons Services Committee's first report, 1987/88 session, on the new parliamentary building.

GRANVILLE

SPONSORED SECURITIES

Capitalisation £000's	Company	Price	Change on week	Gross div (p)	Yield %	P/E
9167	Ass. Brit. Ind. Ord	272	+8	8.7	3.2	7.3
-	Ass. Brit. Ind. CULS	272	+8	10.0	3.7	-
975	Armitage and Rhodes	39	-3			
2898	BBB Design Group (USM)	35	-2	2.1	5.9	5.6
117892	Bardon Group	173	+1	2.7	1.6	29.6
19396	Bardon Group Conv. Pref.	115	0	6.7	6.7	-
6951	Bray Technologies	105	+2	5.2	5.0	8.4
	Breamhill Conv Pref	110	0	11.0	10.0	-
1083	CCL Group Ordinary	285xd	-1	12.3	4.3	4.3
2225	CCL Group 11% Conv Pref	170	+3	14.7	8.6	-
16740	Carbo Plc (SE)	152xd	0	6.1	4.0	13.2
791	Carbo 7.5% Pref (SE)	113	0	10.3	9.1	-
6514	George Blair	353	+3	12.0	3.4	7.8
4400	Isis Group	118	+1	-	-	15.5
11794	Jackson Group (SE)	112	0	3.3	2.9	12.4
21054	Multihouse N.V. (AmstSE)	270	-5	-	-	-
1142	Robert Jenkins	112	0	7.5	6.7	4.2
18360	Scruttons	400xd	0	8.0	2.0	37.1
8593	Torday & Carlisle	278	0	7.7	2.8	13.5
-	Torday & Carlisle Conv Pref	100	0	10.7	10.7	
4045	Trenlat Holdings (USM)	94	-1	2.7	2.9	10.1
-	Unistrut Europe Conv Pref	108	0	8.0	7.6	-
-	Veterinary Drug Co. Ltd	350	0	22.0	6.3	9.4
6137	W. S. Yeates	328	+6	16.2	4.9	63.1

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of TSA.

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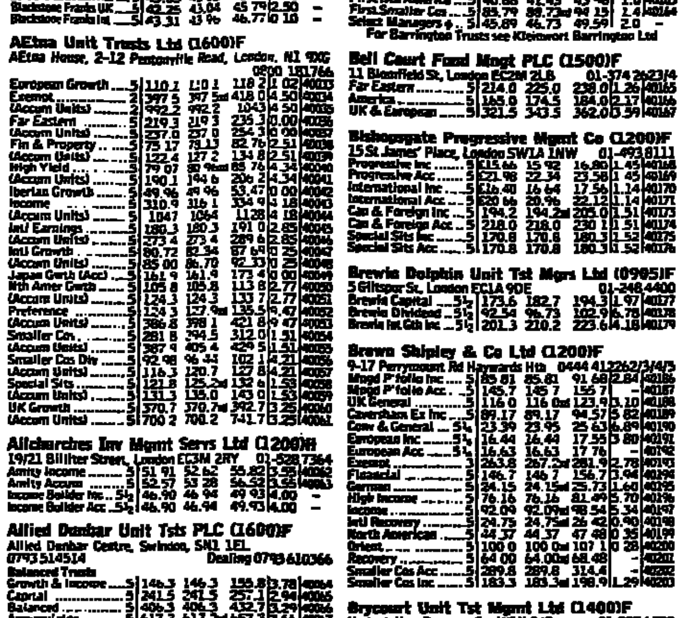
FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

CROSSWORD

No.6,797 Set by DANTE



ACROSS

1 Support an attempt to back a horse to come first (6)
4 Learn lines for speaking (8)
10 It results in a certain jumpiness among rugby players (4-3)
11 Pardoned and released (7)
12 Pass around the mugs (4)
13 "Pinafore" to be transposed for solo instrument (10)
15 He is sent out after some hesitation (6)
16 Direction for making a machine part (7)
20 Spaniard's got at in a political role (7)
21 Revolutionary development in naval fire-power (6)
24 No loitering in this journey? (10)
26 Compete with Western opinion (4)
28 Composition that calls for assurance of touch (7)
29 She may turn out a successful actress (7)
30 What's inside pleases (8)
31 Their function is to secure quiet in class (6)

DOWN

1 Worn-out shoes (8)
2 Neat sum (9)
3 Space upcountry (4)
5 It would be a bloomer to ring Hero's boyfriend (8)
6 Four voices in noisy combination (10)
7 One who gets up part of the stairs (5)
8 Went against the current trend? (6)
9 Take off from the landing field (5)
14 The British TT? (6,4)
17 Blooming good example of self-interest (9)
18 Draw in, though usually drawn up (8)
19 They're enquiry agents, of course (8)
22 He joins a hundred twitching and feverish (6)
23 Green areas for bowls (5)
25 Quietly get the cane out, of hickory (5)
27 Inside accommodation (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 10.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.
OFFER PRICE
The price at which units may be bought.
BID PRICE
The price at which units may be sold.
CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.
TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♠ - 1101 to 1400 hours; ♣ - 1401 to 1700 hours; ♦ - 1701 to midnight.
HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.
FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes are contained in the last column of the FT Unit Trust Information pages.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Swiss Life Pen Tst Man Co Ltd (1000)H						
99-101 London Rd, Sevenoaks 0732-450161						
Equity Dist	5	329.5	334.0xd	353.4	5.15	41453
Equity Acc	5	428.1	433.9	459.2	3.75	41454
Fixed Int Dist	5	114.0	115.6xd	119.8	8.47	41455
Fixed Int Acc	5	210.2	213.2	220.9	8.47	41456
TSB Unit Trusts (y) (1000)F						
Charlton Pl, Andover, Hants. SP10 1RE 0264 63434						
TSB American	6	91.73	92.51	98.42	2.15	41457
Do Accum	6	98.46	99.29	105.63	2.15	41458
TSB Brit Growth	6	54.33	54.33	57.80	3.33	41459
Do Accum	6	56.85	56.85	60.48	3.33	41460
TSB European	6	51.91	52.56	55.91	1.12	41461
Do Accum	6	53.32	53.98	57.43	1.12	41462
TSB Extra Income	6	146.42	149.87	159.44	5.81	41463
Do Accum	6	189.25	193.46	205.81	5.81	41464
TSB Smaller Cos	6	53.38	53.38	56.79	1.56	41465
Do Accum	6	54.33	54.33	57.80	1.56	41466
TSB General	6	177.36	177.36	188.68	3.44	41467
Do Accum	6	307.01	307.01	326.61	3.44	41468
TSB Premier Income	5	47.24	47.69xd	49.68	8.91	41469
Do Accum	5	72.51	73.21xd	76.26	8.91	41470
TSB Income	6	268.35	272.46	289.85	4.92	41471
Do Accum	6	448.55	455.42	484.49	4.92	41472
TSB Pacific	6	210.18	213.37	226.99	0.44	41473
Do Accum	6	216.52	221.85	236.01	0.44	41474
TSB International	6	318.72	318.72xd	339.06	0.88	41475
Do Accum	6	402.74	402.74xd	428.45	0.88	41476
TSB Nat Resources	6	58.36	59.60xd	63.46	1.39	41477
Do Accum	6	61.87	63.23xd	67.27	1.39	41478
TSB Spcd Opps	6	79.41	79.41	84.48	2.74	41479
Do Accum	6	90.67	90.67	96.46	2.74	41480
Target Trust Mngrs Ltd (1600)H						
Target Hse, Gatehouse Rd, Aylesbury, Bucks. Admin: 0296 394000 Dealing: 01-379 0860						
American Eagle	5	57.83	57.83	61.81	0.30	41482
Australia	5	7.280	7.28	7.807	0.10	—
Commodity	5	73.10	73.10xd	78.88	0.63	41484
Convertible	5	141.1	141.1xd	152.0	5.03	41485
Equity	5	150.4	150.4	161.9	3.23	41486
Euro Spec Sits	5	81.38	81.38	87.45	1.56	41487
Financial	5	29.73	29.73	32.08	2.12	41488
Global Opps Inc	5	54.16	54.16xd	58.32	0.64	41489

	Bid Price	Offer Price	Yield Gross	City-line
Local Authorities Mutual Invest. Tst.*				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Property Oct 31	211.95		5.79	40825
Equity Oct 31	714.70		3.98	40826
Fxd Int Sec Oct 31	100.70		9.98	40827
* Available only to Local Authorities				
MIM Ltd				
Magd Pens (Acc)	56.2	58.8	0.80	41007
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Nov 23	36.3	37.7	2.49	41064
Euro Expt Nov 23	41.2	43.2	2.52	41065
Fixed Int Ex Nov 23	49.5	51.8	9.69	—
Japan Expt Nov 23	57.3	59.6xd	0.58	41066
Managed Ex Nov 24	38.5	40.0xd	4.75	41067
SE Asia Expt Nov 23	33.7	35.3	2.12	41068
Sm Cos Expt Nov 23	43.6	45.7xd	2.81	41069
UK Eqty Ex Nov 23	35.5	37.2	4.44	41070
New Court Property Fund Managers				
NC Property	191.5	209.3	—	41205
Phillips & Drew Fund Management Ltd				
PDFM Small Co's Nov 1	815.0	861.0	3.85	41138
Do Accum	842.0	889.0	3.85	41139
PDFM Int Expt Nov 24	120.7	122.9	2.40	41140
J. Rothschild Fund Managers Ltd				
Intl Exempt	93.66	94.73xd	2.92	40172

INSURANCES

AA Friendly Society

(Investment Mngt. M & G Inv Mngt Ltd)

AA Friendly Sy Nov 21	—	143.41	—	41607

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Broker Fund				
Towerhill Mngd Fd Acc	46.0	48.5	–	43447
High Performance	60.9	64.2	–	43448
YRA Executive Fd	76.9	81.1	–	43449
Investment Master		36.4	–	43450
H.F. Specialator Fd		112.4	–	43451
£ High Inc Money Fd		103.3	–	43452
£ Global Growth Fd		103.3	–	43453
PEP Acorn II		101.9	–	–
AAFS Int. Man Fund		100.5	–	–
Individual Pension Funds				
UK Equity Acc	205.4	216.7	–	43454
UK Fixed Interest Acc	164.0	173.0	–	43455
Intl Equities Acc	163.1	172.1	–	43456
UK Managed Acc	151.0	159.2	–	43457
Property Acc	189.3	199.7	–	43458
Money Acc	115.7	122.1	–	43459
Special Market Acc	126.4	133.4	–	43460
Japan Equity Acc	225.6	238.0	–	–
North American Acc	99.7	105.2	–	43462
Pacific Acc	132.1	139.4	–	43463
Technology Acc	132.5	139.8	–	43464
Natural Resources Acc	88.9	93.8	–	43465
European Acc	87.6	92.5	–	43467
Residential Prop Acc	123.9	130.7	–	43468
Swiss Equities Acc	31.6	33.4	–	43469
Hong Kong Acc	42.3	44.7	–	43470
UK High Inc Eqs Acc	65.3	68.9	–	43471
Int. Fixed Interest Acc	50.9	53.7	–	–
Int. Managed Acc	47.0	49.5	–	–
Broker Fund				
Towerhill Mngt Pen Acc	39.1	41.2	–	43472
Group Pension Funds				
Equity Acc	599.9	618.5	–	43473
Fixed Interest Acc	456.0	470.2	–	43474
Managed Acc	102.4	104.4	–	43475

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-line
Unit Fund	907.4	952.8	–	43476
Equity Fund	202.7	212.8	–	43477
International Fd	130.6	137.1	–	43478
Fixed Interest Fd	152.3	159.9	–	43479
Property Fund	196.3	206.1	–	43480
Index-Linked Fund	132.1	138.7	–	43481
Deposit Fund	131.5	138.1	–	43482
Pers. Mixed (Ord) Fd	210.9	221.4	–	43483
Gold Pensions				
Discretionary Fund		102.3	–	–

Royal Heritage Life Assurance Ltd—Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Gartmore Funds				
American	108.7	114.5	–	43671
Australian	54.1	57.0	–	43672
British	170.3	179.3	–	43673
European	129.8	136.7	–	43675
Extra Inc	186.5	196.4	–	43676
Far East	226.1	238.1	–	43677
Frontier Markets	96.5	101.6	–	43678
Intl Fixed Interest	85.2	89.7	–	43679
Global Strtgy	262.1	275.9	–	43680
Gold Share	46.6	49.1	–	43681
Hedged American	112.6	118.6	–	43682
High Inc	249.8	263.0	–	43683
Hong Kong	91.2	96.1	–	43684
Income	322.2	339.2	–	43685
Intl Resources	112.0	117.9	–	–
Japan	288.4	303.6	–	43686
UK Select Opps	232.9	245.2	–	43688
UK Smlr Cos	278.1	292.8	–	43689
Man Gth	280.1	294.9	–	43690
Gartmore Funds (formerly Oppenheimer)				
Global Inc & Gwth	99.6	104.9	–	43691
Worldwide Recovery	99.9	105.2	–	43692
US Select Opps	62.3	65.6	–	43693
Japan Select Opps	109.6	115.4	–	43694
European Select Opps	94.5	99.5	–	43695
Pacific Growth	83.8	88.3	–	43697
Intl Managed	73.6	77.5	–	43698
Perpetual Funds				
International Growth	95.7	100.8	–	43700
Income	101.5	106.9	–	43701
Worldwide Recovery	90.7	95.5	–	43702
American Growth	64.1	67.5	–	43703
Intl Emerging Cos	79.5	83.7	–	43704
Far East Growth	121.6	128.0	–	43705
European	89.9	94.7	–	43706
Managed	89.4	94.2	–	43707
TSB Funds				
American	65.6	69.1	–	43708
European	99.7	105.0	–	43709
Extra Income	120.0	126.4	–	43710
General	92.9	97.8	–	43711
Gilt & Fixed Interest	88.8	93.5	–	43712
Income	110.2	116.0	–	43713
Pacific	128.1	134.9	–	43714
International	95.8	100.9	–	43715
Natural Resources	134.8	141.9	–	43716
Selected Opportunities	119.9	126.3	–	43717
Managed	114.2	120.3	–	43718
Broker Managed				
UFC Stockbroker Fund	112.5	118.5	–	43719
UFC Stockbroker Co Gth	82.3	86.7	–	43720

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

IoM AUTHORISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
2,250	Treas 11½pc 1989	99[illegible]	12.68	18.7	22 Aug 22 Feb	1291
855	Treas 9½pc Cnv 1989	98[illegible]	12.45	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	96[illegible]	10.19	10.10	15Nov 15Mar	1327
1,400	Treas 10½pc 1989	99[illegible]xd	12.42	7.11	14Dec 14Jun	1287
2,400	Exch 10pc 1989	98[illegible]	11.76	27.6	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99	11.56	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	95[illegible]	10.08	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pcCv '89	99[illegible]	10.83	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101[illegible]	10.88	8.6	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99[illegible]	10.81	6.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	101	10.94	16.8	22 Sep 22 Mar	1262
550	Treas 3pc 1990	90[illegible]	9.42	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	95½xd	10.80	8.11	15 Dec 15 Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	96[illegible]	9.52	9.6	16Jul 16Jan	4680
1,887	Treas. 10pcCv 1990	97[illegible]	10.80	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	87[illegible]	8.93	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	100[illegible]	10.83	3.6	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	90[illegible]	10.20	1.9	5Oct 5Apr	1275
400	Treas. 3pc 1991	86[illegible]	8.82	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	98[illegible]	10.30	6.6	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	99[illegible]	10.63	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	92[illegible]xd	11.09	3.11	10Jun 10Dec	1335
900	Treas 12¾pc 1992‡‡	104[illegible]	10.47	15.6	22Jul 22Jan	1297
1,600	Treas 10pc 1992	97[illegible]	10.46	15.7	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	91[illegible]	10.91	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	98[illegible]	10.48	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	82[illegible]xd	8.48	4.11	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	103[illegible]	10.53	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	107[illegible]	10.51	16.8	22Mar 22Sep	1266
950	Treas 8¼pc 1993	91[illegible]	10.39	12.7	18Aug 18Feb	—
1,850	Treas 10pc 1993‡‡	97[illegible]	10.26	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	106[illegible]	10.35	7.6	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	86[illegible]	9.33	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	111[illegible]	10.41	17.10	23May 23Nov	1304
	Five to Fifteen Years					
1,050	Treas. 8½pc 1994	91[illegible]	10.34	27.6	3Aug 3Feb	—
750	Treas 8½pc 1994 A	91[illegible]	10.72	—	3 Feb 3 Aug	—
600	Treas 14½pc 1994‡‡	115[illegible]	10.33	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	111[illegible]	10.45	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	98xd	10.21	2.11	9Dec 9Jun	1284
1,550	Exch. 12½pc 1994	107[illegible]	10.75	18.7	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	93[illegible]	10.43	11.10	17May 17Nov	1345
2,350	Treas 12pc 1995	105[illegible]	10.68	20.6	25Jul 25Jan	1294
229	Exch 3pc Gas 90-95	80[illegible]	6.88	26.9	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	98[illegible]	10.51	14.6	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	111	10.51	10.10	15May 15Nov	1298

BRITISH FUNDS—Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

Over Fifteen Years

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

OTHER OFFSHORE FUNDS

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

• For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
1313	Transamerica $1	17¼	$1.84	5.9	30 9	Ja Ap Ju Oc	4289
469.9	TRINOVA Corp.	13¼	64c	2.6	9.11	Mc Je Se De	4309
4 022	TSX $1	14⅞	$1.40	5.3	2.11	Mr Je Se De	4380
214.3	Unisab	123p	—	5.3	—	—	—
2,892	Utd. Technologies	21¼	$1.60	4.1	15.11	Mr Ju Se Dc	4381
6261.6	US West	31¼	$3.52	6.2	13 4	Fb My Ag No	—
4305.2	Waste Management $1	21⅞	48c	1.2	16 9	Ap Jy Oc Jan	4439
917.3	Whirlpool $1	13⅝	$1.10	4.6	25 01	Mr Ju Se De	—
1384.5	Woolworth $3½	27⅞	$1.54	3.2	19 11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price	Div	Y'ld	Last xd	Dividends Paid	City-line
—	ABM Gold Corp	172p	—	—	—	—	—
—	Abbot Energy Corp.	7p	—	—	—	—	—
559.3	Amer. Barrick Res.	971p	—	—	—	—	—
—	American Lightwave	3½p	—	—	—	—	—
—	Arneno	14p	—	—	—	—	—
—	Augustio Expln.	39½p	—	—	—	—	—
1,286.5	Bk. Montreal	12⅞	$2.00	7.4	8 8	Fb My Ag Nv	—
1,094.3	Bk. Nova Scot.	661p	76c	5.2	28 9	Ja Ap Ju Oc	—
4,494.5	BCE	17⅞	$2.44	6.4	6.6	Ap Jy Oc Ja	—
236.1	Bow Valley	570p	40c	3.2	15.12	May Nov	—
772.3	Brascan	11⅜	88c	3.5	28 10	Ja Ap Jy Oc	—
46.0	Breakwater Res.	205p	10c	2.2	—	—	—
1,788.7	Can. Imp Bank	11¼	$1.15	4.7	29.6	Fe My Au No	—
2,794.3	Can. Pacific	922p	76c	3.8	28 9	July Jan.	—
18.0	Do. 4pc Deb £100	38½	4%	10.4	24 11	July Jan	2051
—	Central Capital "A"	391p	—	—	—	—	—
—	Corona Corp.	368p	—	—	—	—	—
41.8	Cons. TVX Min.	258p	—	—	—	—	—
—	Denbur Res.	67½p	—	—	—	—	—
—	Derlan Inds.	500p	11.75c	1.1	3.6	Mr Je Se De	—
783.2	Echo Bay Mines	827c	$0.07	0.4	—	June Dec	—
—	Energex Minerals	15½p	—	—	—	—	—
—	Euro-Asia Capital Ltd	92p	—	—	—	—	—
78.7	Galactic Resources	264p	—	—	—	—	—
272.1	Gandalf Techs. Inc.	311p	—	—	—	—	5088
6.84	Geodome Res.	51½p	—	—	—	—	—
35.1	Granges Expln	161p	—	—	—	—	—

BUILDING, TIMBER, ROADS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid
—	Intnl Amco Con.	89½	—	—	—	—
11.8	Jackson Group 10p	110	†3.0	3.6	31.10	Nov Jly
18.1	Jarvis (J.) 5p	169	1.6	1.3	22.2	Apr Oct
122.2	Jennings AS.50	98	Q20%	4.9	3.3	Mar Oct
11.0	Johnston's Pts 10p	105	d4.765	6.1	5.9	Apr Oct
1,588.3	Lafarge Cop. F100	£125¼	Q25%	1.9	1.7	July
123.6	Laing (John)	292	†7.0	3.2	19 9	Nov July
15.1	Latham (J.) £1	300	9.5	4.2	4 7	Feb. Aug
59.8	Lawrence (W.)	130xd	†4.75	4.9	14.11	Jan. July
5.59	Do 8.5pc CnvRdPf £1	143½	8½%	7.9	22.2	Apr Oct
75.5	Lilley (F J C) 12½p	52	20.5	1.3	—	Nov Jun
9.53	Lon. & Clydeside	105	d5.7	7.2	20.6	July Feb
120.0	Lovell (Y. J.)	215	†5.0	3.1	4.7	Apr. Oct
111.1	McAlpine (Alfred)	315	†16.0	6.8	18.7	Apr Oct
285.6	McCarthy & Stone 20p	369	†4.2	1.5	6.6	July Feb
13.1	McLaughlin & H.	322	†8.0	3.3	19.9	May Nov
354.5	Magnet	194	†6.9	4.8	20.6	Mar. Oct
69.9	Manders (Hldg).	228	†h5.5	3.3	19.9	Nov. May
408.3	Marley	148	†5.0	4.5	5.9	Oct May
96.8	Marshalls Halifax	234	†7.25	4.2	15.8	May Nov
63.8	Do 6¼p Cr Cm Red Pf.	101	6.5	8.6	5.9	—
24.3	Maunders (J.)20p.	108	3.15	4.2	17.10	Apr Nov
376.9	Meyer Int.	388	9.5	3.3	4.7	Jan. Sep
12.1	Miller (Stan) 10p	201	†1.25	0.8	3.10	December
307.4	Mowlem (J)	362	†17.25	6.4	3.10	Jan. Jul
118.6	NSM 10p	69	F3.0	5.8	—	Aug Jan
16.6	Needler Group	98	uQ9.8	4.8	3.10	October
170.8	Newarthill £1	£18	s14.0	0.9	23.5	July
111.3	Newman-Tonks	173	†7.7	5.9	18.7	Mar Apr
111.8	Persimmon 10p	147	M4.5	4.1	19.9	April Oct
13.1	Phoenix Timber	91	2.5	3.7	20.6	Feb. Oct
9.98	Pochins	960	19.0	2.6	31.10	July Dec
83.0	Polypipe 10p	140	2.1	2.0	3.10	Apr Nov
22.2	Prowting 20p	183xd	W4.25	3.1	14.11	Jul Dec
968.9	RMC	502	†11.0	2.9	17.10	June Dec
102.2	Raine Inds. 10p	88	3.0	4.7	11.4	Apr. Dec
6.20	Ramus	140	7.0	6.7	17.10	May Dec
1,137.0	Redland	418	†15.85	5.1	31.10	Jan. Oct
55.5	Redland Cap 7½pc Cv '02	£92½	Q7¼%	7.8	—	January

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

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LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma. Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent, and allow for value of declared distribution and rights.

● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Dealt in under Rule 535(3).
# Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
♣ Not comparable
♠ Same interim; reduced final and/or reduced earnings indicated
§ Forecast dividend.

‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
☆ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights, xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	78	−1
Craig & Rose £1	710	......
Finlay Pkg. 5p	85	......
Holt (Jos) 25p	£11½	......

IRISH

Cap. 8½% Ln. 1991	£99⅛	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£124¼	......
Arnotts	375cl	......
Carroll (P.J.)	155	......
Grafton Grp.	145	−3
Hall (R. & H.)	155	......
Heiton Hldgs.	56	......
Irish Ropes	165	......

TRADITIONAL OPTIONS
3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	98
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42
Property	
Brit Land	30
Land Securities	52
MEPC	50
Peachey	54
Oils	
Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21
Mines	
Cons Gold	100
Lonrho	38
RTZ	40

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

A common purpose in the sharp shock

By Colin Millham

"MONETARY POLICY right now needs to be tight. It is a short, sharp, shock remedy which could curb demand rapidly."

These comments did not follow the UK trade figures, and did not come from Mr Nigel Lawson, or any other minister in the British Government.

They were made in Melbourne by Mr Will Bailey, chief executive of the Australia and New Zealand Banking Group, and reflect fears that like the UK, Australia is growing too quickly for comfort, sucking in imports and increasing inflationary pressure.

Confidence was badly hit in London on Friday, and financial markets reacted predictably to an October UK current account deficit of twice the amount forecast.

Sterling's rally, after falling more than 1 pfennig on the trade news, was simply a reaction to another rise in UK bank base rates.

The pound should remain firm in the short term, because of its large interest rate advantage, but a question mark will hang over the currency, until it is clear whether Mr Lawson's sharp shock of 13 p.c. base rates has worked.

Other currencies, with an Anglo-Saxon historical background also had a rather volatile week.

There is more than one type of dollar in the world, and while the US variety continued to attract attention, but very little favour, the Canadian and Australian dollars required a restraining influence to prevent them rising too sharply.

At first glance the picture was rather confusing, with the Bank of Japan doing most of the work to prop up the ailing USdollar, while the US Federal Reserve was seen selling Australian dollars, and the Bank of England was a seller of Canadian dollars.

A build up of pressure outside the time zone of the domestic central bank was the reason however, with the Fed acting in New York on behalf of the Reserve Bank of Australia, and the Bank of England acting in London as the agent of the Bank of Canada.

The Australian dollar rose to a four-year high of over 87.00 US cents, supported by very high interest rates.

As Mr Bailey, of ANZ Banking Group, pointed out, Australia is enduring the highest real interest rates, relative to inflation, since the Second World War. He warned against stifling investment by keeping rates high for too long.

Tomorrow's third quarter Australian gross domestic product figures are likely to contain large statistical discrepancies, but economists will be looking for signs of a slowdown in growth.

A survey conducted by Reuter suggests the growth rate could be zero, but MMS International's survey points to 0.8 p.c. growth, unchanged from the second quarter, and bringing the year-on-year rate up to 3.2 p.c. from 2.2 p.c.

The run up to last week's Canadian election produced some sharp swings in the opinion polls. Victory for Mr Brian Mulroney, and the Conservative Party, was greeted with relief in the market.

The cross rate between the US and Canadian dollars was C$1.2120 before the election, but when the Bank of England intervened on Thursday it was $1.1940. On Friday the Bank of England continued to sell Canadian dollars, as the US dollar traded below C$1.1900.

Another dollar in the spotlight last week was the New Zealand unit, largely because of political uncertainty. This centred on reports of a row within the Government on economic policy, and put into question the future of Mr David Lange, the Prime Minister.

Speculation about a challenge to his leadership tended to fade later in the week, lifting the New Zealand dollar to 65.50US cents

£ IN NEW YORK

Nov.25	Close	Previous Close
£ Spot	1.8415-1.8425	1.8360-1.8370
1 month	0.59-0.56pm	0.52-0.51pm
3 months	1.53-1.48pm	1.32-1.29pm
12 months	5.15-5.00pm	4.70-4.63pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY RATES

*All SDR rates are for Nov.23

CURRENCY MOVEMENTS

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100)*Rates are for Nov.23.

OTHER CURRENCIES

Nov.25	£	$
Kuwait	0.51420-0.51470	0.27910-0.27920
Luxembourg	66.25-66.35	35.90-36.00
Malaysia	4.9030-4.9175	2.6580-2.6660
Mexico	4210.55-4223.90	2284.00-2290.00
N. Zealand	2.7985-2.8035	1.5200-1.5220
Saudi Ar.	6.9100-6.9160	3.7505-3.7515
Singapore	3.5765-3.5840	1.9390-1.9410
S. Af (Cm)	4.2805-4.2930	2.3200-2.3250
S. Af (Fn)	6.3065-6.4160	3.4190-3.4785
Taiwan	51.50-51.75	28.05-28.15
U.A.E.	6.7665-6.7720	3.6725-3.6735

*Selling rate.

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

MONEY MARKETS

Upward twist in rates brings surge on Liffe

INTEREST RATES received an upward twist last Friday, as the UK authorities reacted swiftly to concern about a very bad set of UK trade figures, and forced bank base rates up to 13 p.c.

Markets which had been virtually becalmed all week, suddenly burst into life, including a significant increase in turnover on the Liffe market.

Until then, sterling was firm, but the Government had made it clear there was no prospect of lower rates, while inflation remains a problem.

Base rates seemed set to stay at 12 p.c. for some time. This left the Liffe market with little to go for, bringing volume down to low levels.

On Thursday turnover in short sterling futures was less than 8,000 contracts, but on Friday it soared to a record of over 46,000 lots.

This exceeded the previous record of 42,661 set on June 2, which happened under similar circumstances, at the time when base rates first began to rise in the summer.

On Friday, March short sterling, the most active delivery month, touched 86.90, the lowest level this year.

In New York on Friday rumours began to circulate about a possible rise in the Federal Reserve's discount rate.

UK clearing bank base lending rate 13 per cent from November 25

This Friday's US employment data for November will be watched for signs of a strong economy, which would lend further support to such suggestions.

October's rise in non-farm payrolls was very high, at 325,000, but according to the Nomura Research Institute, this is likely to have fallen back to 232,000 in November.

MONEY RATES

LONDON MONEY RATES

FT LONDON INTERBANK FIXING

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 24,971

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | SINGAPORE | CANADA

CANADA

TORONTO

Closing prices November 25

MONTREAL

Closing prices November 25

Sales	Stock	High	Low	Close	Chng
1648	BombrdrA	$13¼	13¼	13⅜	– ⅛
45605	BombrdrB	$12⅞	12⅝	12⅝	– ⅛
4800	CB Pak	$20⅞	20⅝	20⅝	– ⅛
12864	Cascades	$05¼	05	05	
8137	DomTxtA	$14⅞	14½	14½	+ ⅛
141884	NatBk Cda	$11⅛	11	11⅛	+ ⅛
2825	Noverco	$10⅞	10⅞	10⅞	
17125	Power Corp	$13	12⅞	12⅞	+ ⅛
6654	Provigo	$11	10⅞	10⅞	
47958	Royal Bank	$35⅝	35⅛	35⅝	+ ⅛
18280	SteinbrgA	$38⅛	38	38	– ⅛
14980	Videotron	$12⅝	12½	12⅝	+ ⅛

Total Sales 4,501,882 shares.

INDICES

NEW YORK DOW JONES

	Nov 25	Nov 23	Nov 22	Nov 21	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2074.68	2092.28	2077.70	2065.97	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.05	89.26	89.19	89.41	91.25 (3/3)	86.12 (4/1)	–	–
Transport	907.72	919.48	897.92	897.32	938.33 (25/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	182.37	182.67	182.67	182.25	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2085.53 (2103.49) Low 2062.77 (2071.48)

STANDARD AND POOR'S	Nov 25	Nov 23	Nov 22	Nov 21	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	267.23	269.00	267.21	266.26	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	307.64	309.45	307.55	306.14	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	24.28	24.57	24.43	24.38	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	150.63	151.41	150.55	150.10	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	291.19	290.09	288.22	286.17	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	366.38	367.76	365.36	367.18	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Nov 18	Nov 11	Oct 21	year ago (approx.)
Dow Industrial Div. Yield	3.83	3.81	3.54	3.58
	Nov 16	Nov 9	Nov 2	year ago (approx.)
S & P Industrial div. yield	3.32	3.19	3.09	3.31
S & P Indl. P/E ratio	12.13	12.60	13.52	16.39

TRADING ACTIVITY †Volume Millions

	Nov 25	Nov 23	Nov 22
New York	72.090	112.010	127.000
Amex	4.766	7.683	9.705
OTC	50.065	103.662	117.084

NEW YORK	Nov 25	Nov 23	Nov 22
Issues Traded	1,812	1,913	1,946
Rises	513	882	713
Falls	778	517	700
Unchanged	521	514	533
New Highs	24	31	27
New Lows	21	32	53

CANADA

TORONTO	Nov 25	Nov 24	Nov 23	Nov 22	1988 High	1988 Low
Metals & Minerals	2904.0	2896.2	2848.3	2821.5	3226.5 (5/7)	2238.7 (8/2)
Composite	3275.0	3265.0	3246.1	3258.7	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1622.02	1619.89	1610.24	1617.06	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Texas Utilities	2,120,300	28¾	—
AT&T	1,886,400	29¼	—
RJR Nabisco	1,494,900	88	+ 1½
Upjohn	1,026,600	27⅛	– 1⅛
Phillips Pet.	870,100	20⅜	+ ⅛
Exxon	789,600	42	—
Texaco	778,000	46¼	+ ⅛
General Electric	718,900	43⅝	– ⅛
Mobil	714,300	43⅝	+ 1
SCEcorp	710,300	32⅛	– ⅛

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

WORLD INDICES

	Nov. 25	Nov. 24	Nov. 23	Nov. 22	1988 High	1988 Low
AUSTRALIA All Ordinaries (1/1/80)	1506.0	1498.9	1490.7	1478.4	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	703.1	700.2	693.6	685.8	847.8 (9/8)	532.4 (10/2)
AUSTRIA Credit Aktien (30/12/84)	221.70	222.80	224.90	225.30	225.48 (4/11)	163.98 (11/2)
BELGIUM Brussels SE (1/1/84)	5388.70	5393.00	5367.00	5360.10	5393.00 (24/11)	3608.35(4/1)
DENMARK Copenhagen SE (3/1/83)	(u)	248.30	247.78	245.77	248.30 (24/11)	180.68 (4/1)
FINLAND Unitas General (1975)	739.7	736.2	731.0	728.1	772.1 (8/8)	530.6 (15/1)
FRANCE CAC General (31/12/82)	393.5	393.1	391.1	388.7	397.2 (9/11)	251.3 (29/1)
Ind. Tendance(31/12/87)	151.5	151.1	149.9	149.0	153.4 (4/11)	89.7 (29/1)
GERMANY FAZ Aktien (31/12/58)	527.74	529.51	530.35	527.27	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1588.4	1594.6	1597.6	1587.6	1641.6(27/10)	1207.9 (29/1)
DAX (30/12/87)	1275.41	1279.23	1280.87	1277.40	1314.98 (28/10)	931.18 (28/1)
HONG KONG Hang Seng Bank (31/7/64)	2656.08	2666.02	2633.65	2598.78	2772.53 (12/7)	2223.56 (8/2)
ITALY Banca Com. Ital. (1972)	580.21	580.85	579.64	575.56	593.43 (9/11)	423.91 (9/2)
JAPAN** Nikkei (16/5/49)	29406.65	29340.03	(c)	29430.12	29430.12 (22/11)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2275.41	2273.51	(c)	2278.83	2278.83 (22/11)	1690.44 (4/1)
NETHERLANDS ANP-CBS General (1970)	272.9	273.3†	272.0	269.7	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	241.0	240.7†	238.8	236.3	252.6 (31/10)	157.9 (11/1)
NORWAY Oslo SE (4/1/83)	419.49	417.96	418.86	411.45	423.64 (21/7)	327.78 (28/1)
SINGAPORE Straits Times Ind. (30/12/66)	1010.94	1012.19	1008.24	999.52	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA JSE Gold (28/9/78)	1283.0‡	1278.0	1285.0	1298.0	1453.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1839.0‡	1839.0	1838.0	1840.0	1869.0 (2/11)	1387.0 (12/2)
SPAIN Madrid SE (30/12/85)	283.77	282.52	282.00	282.52	301.63 (15/6)	225.50 (4/1)
SWEDEN Jacobson & P. (31/12/56)	3199.60	3234.40	3240.50	3216.20	3267.33 (4/11)	2148.5 (4/1)
SWITZERLAND Swiss Bank Ind. (31/12/58)	580.2	576.1	565.6	561.1	582.3 (21/10)	466.6 (13/1)
WORLD M.S. Capital Intl. (1/1/70)	(u)	491.1	489.8	487.0	491.1 (24/11)	401.8 (21/1)

**Saturday Nov. 26: Japan Nikkei 29363.59 and TSE 2273.70

‡ Subject to official recalculation. †Correction.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 25 November 1988

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	97.6m	954	+10
Japan Line	35.6m	808	-8
NKK	21.1m	849	+12
Sanyo Electric	19.9m	758	+23
Tokai Carbon	19.0m	1,130	+80
NHK Spring	18.5m	909	+24
Nissui	18.2m	890	+19
Kawasaki Kisen	16.7m	605	-18
Yamashita Steamship	15.5m	450	uch
Kayaba Ind	15.1m	770	+25

4pm prices November 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27⅞	14	AAR	.44	1.9	16	230	23	22¾	23	+ ½
10⅛	8¾	ACM n				27	9⅛	9	9	– ⅛
12⅜	10⅞	ACMIn	1.28e	11.		276	11¼	11⅛	11⅛	
10⅛	10	ACM M n				22	10	10	10	
12⅛	10⅝	ACMSc	n1.28	12.		z350	10⅞	10¾	10¾	
10⅛	8⅞	ACMSp	n1.01	11.		80	9⅛	8⅞	9	
5⅞	2⅞	AMCA	.12e	3.7		50	3¼	3¼	3¼	
		AMCA rt				5	1-64	1-64	1-64	
6⅛	3⅞	AM Intl				106	4⅝	4⅝	4⅝	
51¼	25¾	AMR			8	3041	49¾	49⅜	49¾	– ½
24⅞	20½	ANR pf	2.12	9.0		49	23½	23½	23½	+ ¼
9½	5½	ARX			10	21	5⅝	5⅝	5⅝	
58¾	25¼	ASA	3a	7.6		510	39⅝	37½	39⅝	+ 2⅛
20¼	11	AVX	.12e	.8	11	69	15⅞	15⅞	15⅞	– ⅛
52⅞	42¼	AbtLab	1.20	2.7	14	3048	44⅞	44¼	44⅜	– ⅜
21¼	15⅛	Abitibi g	1			3	16½	16½	16½	
13⅞	7½	AcmeC	.40	5.1		35	7⅞	7⅞	7⅞	
8⅞	6	AcmeE	.32b	5.4	28	12	5⅞	d 5⅞	5⅞	– ⅛
29½	12⅝	Acuson			29	84	20⅞	20⅝	20⅞	+ ⅛
17¼	14⅝	AdaEx	1.82e	12.		122	14⅞	14¼	14¾	– ⅛
16⅞	7⅞	AMD			14	1182	7½	7¼	7½	– ⅛
40½	28¼	AMD pf	3	10.		z15	30⅛	30	30	– ⅛
8½	4¾	Adobe				170	6⅛	6⅝	6¾	+ ⅛
18½	16¼	Adob pf	1.84	11		11	17	17	17	
9⅛	5⅞	Advest	.12	1.8	21	26	6⅞	6⅝	6⅝	
52½	39½	AetnLf	2.76	5.9	8	1238	48⅛	47½	47⅞	– ⅜
34¼	20½	AflPb s	.20	.7		394	28⅞	28⅛	28⅛	– ⅛
18⅝	13	Ahmans	.88	5.5	9	1090	16⅛	15⅞	16	– ¼
58⅞	30⅝	AirPrd	1.20	3.1	10	684	38⅞	38½	38⅛	– ⅜
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

[illegible]

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices November 23

[illegible]

OVER-THE-COUNTER

Nasdaq national market, 4pm prices November 23

[illegible]

The Business Column

Rewriting the role of independent directors

At last, that Cinderella of the capitalist financial system – the non-executive director who earns a pittance of £20,000-odd for taking on the full legal and intellectual responsibilities of guiding the fortunes of multi-billion dollar companies – *has found a prominent*, occasionally heroic role, in corporate life.

The outside directors' new raison d'être is, of course, to supervise the buyouts, mergers, dismemberments or recapitalisations that are now near the top of the strategic agenda for many, if not most, major corporations in the US.

The $23bn auction for RJR Nabisco is only the latest and most spectacular case where a tough-minded group of independent directors have squeezed billions of dollars in additional money for shareholders out of an astonished and clearly irritated management group which had been hoping to buy the company much more cheaply and without protest from the board.

The recently completed takeover battle for Macmillan, on the other hand, illustrates how far from universal the kind of objectivity is which independent directors are now expected to display. As the Delaware courts declared in an unusually savage judgment three weeks ago, Macmillan's board was "neither even-handed nor neutral" in conducting an auction process which clearly favoured the management-led buyout group.

The preoccupation, both in the courts and on Wall Street, with the fiduciary duties of independent directors may be nothing new in theory, but it raises a host of practical issues which remain unresolved.

Perhaps the most important is whether the fiduciary duty of the non-executive directors somehow relieves executive directors of the same responsibility to act in shareholders' interests. In principal, of course, the answer is no. Ironically, however, US executives may feel less constrained in pursuing their personal interests because of the very fact that they can usually be outvoted by outsiders. US boards are typically and increasingly dominated by non-executives – a survey of 600 large public companies published this month by Arthur Young showed that the composition of the average 12-man corporate board had shifted from 65 per cent outsiders in 1979 to 74 per cent this year.

Qualified to make financial decisions

A more immediately controversial issue is whether directors have duties to bond-holders, who frequently sustain large losses in LBOs and leveraged mergers, as well as shareholders, who normally benefit.

The most general question of all is whether directors who have been chosen largely for their business experience or industrial expertise are the best-qualified people to make what are increasingly becoming financial asset allocation decisions on behalf of fund managers – not only on LBOs, but also on takeovers, where clear-cut distinctions between hostile and agreed mergers, have been enshrined in law.

Finally, there is the old chestnut of personal relationships in the boardroom. These may still be too cosy if outside directors and executives are effectively serving different constituencies. A survey conducted earlier this year by Korn/Ferry International showed that the characteristics most valued by CEOs in their directors were "supportiveness, frankness and objectivity". They were less interested in directors who are "idealistic, assertive, or eager to play devil's advocate."

Shareholders should not be surprised by this. They have long viewed the non-executive's main role in a fairly negative light: to protect the company from manifest incompetence or dishonesty on the part of their managers.

Today, however, shareholders need protection not from their managers' stupidity or fraud, but from their greed. And this means, inevitably, a far bigger role than ever before for non-executive directors: for greed is far more prevalent than either incompetence or dishonesty among the graduates of Harvard Business School, to say nothing of the school of hard knocks.

Anatole Kaletsky

THE MONDAY INTERVIEW

In the shadow of Peronism

Gary Mead speaks to Carlos Saul Menem, presidential candidate in Argentina

The very word "Peronism" sends shock waves down the spines of many Argentines. For some it is indelibly tainted with images of violent Nuremberg-style rallies and brutally crude trade union corruption. Banned for 18 years, out of government since 1976, is it a Latin American dinosaur refusing to die or has it metamorphosed into something more palatable? Part of the problem is deciding what, beyond mass working-class dreams of greater wealth, it really stands for.

When alive, General Juan Peron defined it in a hundred contradictory ways. He, and his second wife Eva, were the best definitions, and they are dead. The recent visit to Argentina by Peron's third wife Maria Estela, who briefly followed Peron as President until overthrown by the military 12 years ago, has done nothing to clarify the picture.

Peronism today is personified by its Presidential candidate, Mr Carlos Saul Menem. Mr Menem *hopes to sweep to* victory in elections which will be held on May 14 next year. He arouses violently contradictory emotions: vitriolic hatred, glowing adoration, and in some quarters, fear. The fear is not of the man himself, since personally he is amiable and charming, but for what he may represent. Many of Argentina's sizeable upper class loathe him. He's a Peronist, and for them that's enough.

But his popularity among the country's swelling underclasses has him on the crest of an electoral wave. The evident failure of Radicals to solve drastic economic problems gives him a head start, despite Peronism's equally abysmal economic performance when in power. Memories are short in Argentina. If he wins, some will leap for joy while others will get their Spanish or Italian passports updated.

Governor of the province of La Rioja since 1983 – an earlier stint in the post came to an end under the same junta that deposed Peron's widow – Mr Menem is a life-long Peronist. He served five years in jail for his political beliefs under that same military regime. He is a lawyer by training, like the current President, Raul Alfonsin, and he describes himself as a "passionate reader of the Greek classics" and of the Bible.

His office in La Rioja has a large picture of General Peron, and a bust of Eva. In his desk drawer he keeps more mundane things, such as a box of chocolates which he thoughtfully chews as he answers questions.

He is convinced that only Peronism leads to the promised land of economic power. His opponents are equally as certain that his electoral success would be an unmitigated disaster. Their criticisms range from trivial prejudice – his huge and unfashionable sideburns ("It's just a style, nothing more. Alfonsin has his moustache, I have my sideburns") – to the serious point that he promises paradise but *is thin on details*.

The vastly inefficient state sector, which officially loses $2bn each year, was a Peronist construction. Wealthy Argentines get hot and flustered when they consider Mr Menem's power-base, the trade unions. They have proved time and again their opposition to any diminution of their economic muscle, unrivalled in Latin America. Argentina is experiencing strikes crippling post, telephones, railways and other state-run sectors. Those are Mr Menem's supporters.

He knows that he and his movement have credibility problems. Does he accept that Peronism has made mistakes? "I think that no country can develop without there being errors. Peronism started a process of revolutionary change, incorporating a previously exploited sector of society. Peron incorporated the working class, with many problems, as all the world knows. But that changed Argentina from a producer of meat and grain into a country moving towards industrialisation".

One of the more serious attacks levelled against him is that he tries to be all things to all people. How would he tackle Argentina's $56bn foreign debt? On occasion, speaking at domestic rallies of the party faithful, he has appeared to call for a moratorium; at other times, for wider con*sumption, of a five-year period* of grace during which interest payments would be suspended. What is the difference?

"A moratorium can be agreed or unilaterally declared, a grace period is an agreement between creditor and debtor. I speak of a grace period, a totally different thing from a moratorium. I don't know if we will get it, but I am convinced that we will change the method of payment, that is to say we are going to arrive at an understanding with our creditors, an understanding of such magnitude that it will enable us to develop our economic potential and at the same time to make payments."

His criticism of President Alfonsin's Radicals is that they have made a series of mistakes in economic policy. "They have implemented an economic policy suitable for a totally developed country, and that's not how it is here. We are taking the first steps along the road of development in a world dominated by science and technology. If we eliminate tariffs to encourage competition that will end in the destruction of the little which remains of our national industry." The elimination of protectionist tariffs is just one suggestion from the International Monetary Fund to improve Argentina's economy.

"Regrettably Dr Alfonsin promised solutions for everything within two years of his being in government – to end unemployment, malnourishment, infant mortality, to build new factories. Fine, he wanted to change Argentina: but in truth he didn't. He didn't fulfil any of his promises. We can say that his government is a failure. I only promise what can be done."

Mr Menem's detractors say confidence in his party's ability to solve an economic crisis of dropping living standards, high inflation and massive internal and foreign debt is all that he has. He proposes that he will widen the tax base and simplify the somewhat Byzantine tax laws in order to dis*courage evasion and increase* revenues. He claims that by so doing his Government would gain an extra $2.5bn a year. At the moment Argentina lags behind Haiti in terms of gathered revenue per capita as a percentage of GDP.

He will "look for new international markets and try to recover those we have lost, for example those in the EEC. We want to create a united Latin America, as you have with the European Community. We've already made strides with Brazil and Uruguay, and we want to do the same with Chile, Paraguay, or with Russia, with which we have very good relations. There are two important principles in international affairs: *self-determination* and non-interference in the internal affairs of another country. Our interest is to do business with everyone".

That business includes arms. "We will buy Soviet, French, Brazilian arms and, moreover, will sell them to the USSR, USA, Iran, Iraq or whatever other country, just like the USA or France or Brazil. The other day Brazil signed a contract with Libya to sell it arms worth $5bn. Why can't we do the same, is there some prohibition?"

On relations with Britain, Mr Menem was quoted in the Argentine press earlier this year as saying he would "confiscate Crown property in Patagonia", the arid southern half of the country. What property does the Crown have there? "I did not speak of confiscation, I was misquoted. We understand there is Crown property and we are investigating. I spoke of a seizure, impounding those goods until Britain ceases its economic aggression in the South Atlantic. They are pillaging our wealth, starting with the fishing licences Britain is giving to other countries in our southern sea. I do not speak of an armed response because we are not in a condition to do that, and we already had one experience. So it is not confiscation but impounding until we have an agreement. Sovereignty (of the Falklands) is the theme of the discussion, but by means of international law, not war."

His recent visit to Europe was "to improve the image of Peronism", to reverse the suspicion that Peronism is quasi-fascism. "They say that Peronism is Nazism, fascism: nothing is further from the truth. If ever there was a party persecuted by fascism it was the Peronist. We want a dialogue with business, we want to open the doors of our country, we want to change the image of Peronism. Especially to demonstrate that the party's Presidential candidate is not some blood-soaked *caudillo* (strongman), as they say in some editorials of European newspapers."

Argentine voters – over 30 per cent of them still classify themselves as "don't knows" in opinion polls – will decide for themselves next May. They are still pondering the possibility that the dinosaur even now lurks beneath the freshly laundered lambswool.

● Personal file

1932 Born La Rioja, to Syrian immigrant parents
1955 Graduated in law, Cordoba University
1963 President Peronist Party, La Rioja
1973 Elected governor of La Rioja
1976 Imprisoned under military dictatorship
1981 Released from prison
1983 Re-elected governor of La Rioja
1988 Chosen as Peronist presidential candidate

'We can say that Alfonsin's government is a failure. I only promise what can be done'

A shift in the law to guard children's rights

JUSTINIAN

The Children Bill, which finally emerged last week after a protracted period of gestation within the Department of Health, at the very least continues the law's approach in contemporary society of singling out the child for special attention. Where the law has consistently distinguished between adult and child in physical, psychological and social terms, the general attitude has persisted that children are the responsibility primarily of their parents. This has meant that the rights (if any) of children have been obscured in legislation binding on the parent or expressed in more generalised approaches. Does the new Bill continue this tradition, or does it strike out in a new direction and in a positive way to promote the rights of children?

By and large, the law is designed to safeguard the rights of individual adults to organise their personal affairs free of governmental intrusion. It does not seek to tell the citizenry what is in its best interests. Children, on the other hand, are presumed to be in every respect immature and hence incompetent to determine and safeguard their interests. They are seen as dependent and in need of direct, intimate and continuous care by the adults who are personally committed to assume such responsibility.

The law has increasingly over recent years sought to achieve two things. First, it proceeds to assure each child membership in a family with at least one adult whom the law designates as "parent", and to act as an arbitrator between discordant parents. The new bill endorses that approach by moving away from the making of composite orders – such as awarding custody to one parent or joint custody to both – towards resolving specific problems relating to the child's education, residence and access to both parents. Second, the law is concerned, where the family fails to provide the requisite nurturing and protection of children, to secure an environment for the child which will adequately serve the child's needs. The degree of official intervention in the private ordering of the parent-child relationship thus ranges from a minimum (the assignment by registration at birth of the child to his or her biological parents) to the maximum (the court-ordered removal of the child because the custodians are unable or unfit to be parents). It is to the various *points along the continuum* of child care that the projected legislation is directed.

During the inter-war period two themes to child legislation could be discerned. One was the concern prompted by preventive penology, a desire to protect society from troublesome children whose delinquency could not be tolerated. The other was the physical removal of the child from the family where the child was suffering from neglect or cruelty. Here the emphasis was on rescue, not protection or of ensuring that families could be supported within the community.

The Second World War, which severely dislocated families, exposed the physical insecurity and mental ill-health of many children. Evacuation of children from town to country demonstrated to a wider population who had had little or no contact with inner cities the neglect and deprivation that many children experienced.

This inculcated in legislative and administrative minds the new approach to the family which pointed to a partnership between family and local authority to ensure appropriate conditions existed for children so that they could develop both physically and emotionally. But it was a partnership which sustained the respective traditional roles of parent and authority. The Children Act 1948 aimed not at punishing bad parents but acting in the *interests of children by* encouraging families to care more effectively for their own. The Act, introduced in the shadow of a war crippling on domestic arrangements, focused attention on abandoned, orphaned and destitute children. Forty years on, and after a series of contemporary public inquiries from Maria Colwell in 1973 to Cleveland in 1987, the focus is more appropriately on children vulnerable to abuse at the hands of their parents.

The Children Bill seeks to balance the competing social policies of enforcing the rights of parents to bring up their own children without interference from authority and of safeguarding the interests of children from risk of abuse from parents. Parental rights are given great prominence in the law, although the courts have said that such rights are conferred on parents ultimately to the benefit of their children. Hitherto the absence of what is precisely incorporated in the concept of parental rights has led to confusion among social workers about the nature and extent of their powers of intervention. So far there has been no clear legal framework for the social worker upon whom the legal duty lies to investigate suspicions of child cruelty or neglect. Successive child abuse inquiries disclose persistent failures on the part of social workers and the auxiliary agencies in child health to intervene timeously to protect a child. Such failures were largely the product of a confused state of the law relating to child care, inadequate training for social workers in what that law was, and a lack of co-operation between the agencies of child care and child health. The Cleveland Inquiry revealed the reverse side of the coin, an over-zealous desire on the part of paediatricians, social workers and magistrates to intervene in the lives of families where sexual abuse had been suspected. The dilemma for social workers has never been more cruelly exposed – to intervene or not to intervene.

The new Bill tilts the scales perceptibly towards child protection by restating, refining and restricting the powers of social workers and the auxilliary agencies more precisely and in the unified code of child care. It thereby seems to endorse the contemporary social policy towards establishing in law the rights of children.